恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP CO.,LTD

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1044

ANNUAL REPORT 2021

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of "Integrity, Diligence, Innovation and Dedication". Our goal is "to build an effective corporate management and to develop a high quality, ethical and enthusiastic staff team". By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become the "International Top Daily Necessities Corporation".

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman)*
Hung Ching Shan
Hui Ching Lau *(Chief Executive Officer)*
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Li Wai Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Ada Ying Kay Wong
Ho Kwai Ching Mark
Zhou Fang Sheng
Theil Paul Marin

COMPANY SECRETARY

Li Wai Leung *FCPA*

AUTHORISED REPRESENTATIVES

Hui Ching Lau
Li Wai Leung

LEGAL ADVISERS

Hong Kong
ReedSmith Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder (Hong Kong) LLP

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

Unit 2101D, 21st Floor
Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTORS AND MEDIA RELATIONS

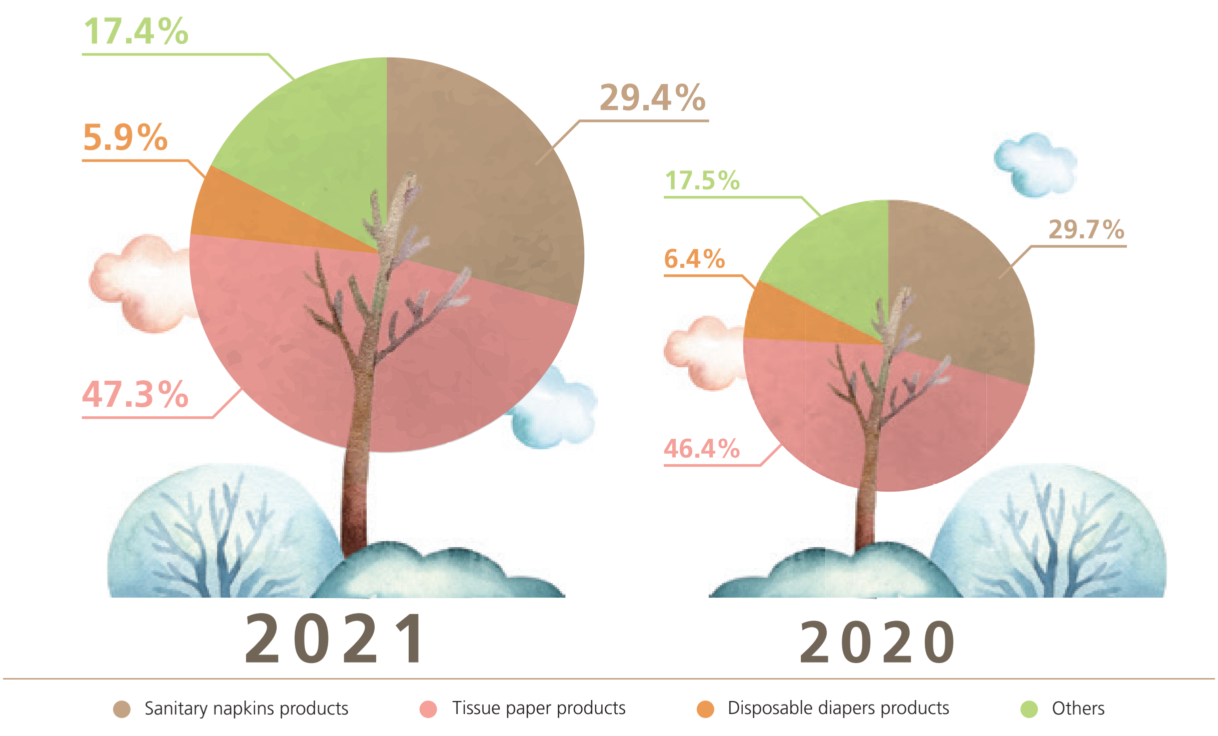
iPR Ogilvy Ltd.
40th Floor, China Online Centre
333 Lockhart Road
Wan Chai
Hong Kong

FINANCIAL HIGHLIGHTS

	2021	2020	2019	2018	2017 (Restated)
Net profit margin – based on profit attributable to shareholders of the Company (%) *(Note)*	**15.7**	20.5	17.4	18.5	21.0
Earnings per share – basic (RMB)	**2.786**	3.864	3.285	3.151	3.149
Finished goods turnover (days)	**50**	49	43	41	46
Trade receivables turnover (days) *(Note)*	**56**	57	53	46	51
Current ratio (times)	**1.20**	1.4	1.3	1.3	1.3
Gross gearing ratio (%)	**95.7**	107.3	120.9	145.1	118.5
Net gearing ratio (%)	**(21.3)**	(16.1)	(7.6)	(9.9)	(11.5)

Note: The financial highlights since the year ended 31 December 2018 were presented according to Hong Kong Financial Reporting Standard 15 and comparatives for the year ended 31 December 2017 have been restated accordingly.

ANALYSIS OF REVENUE BY PRODUCT



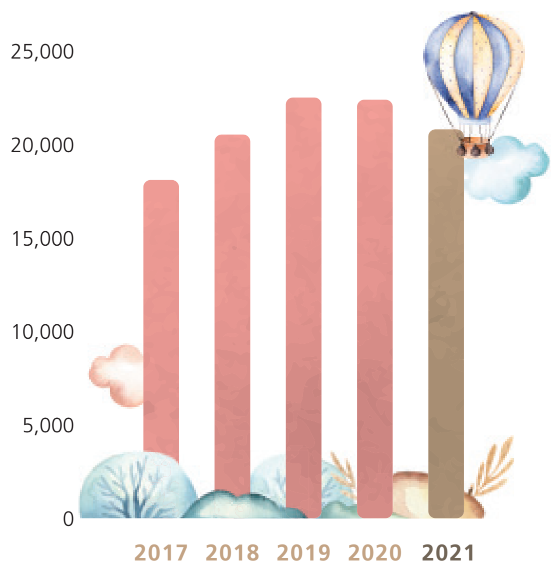
FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

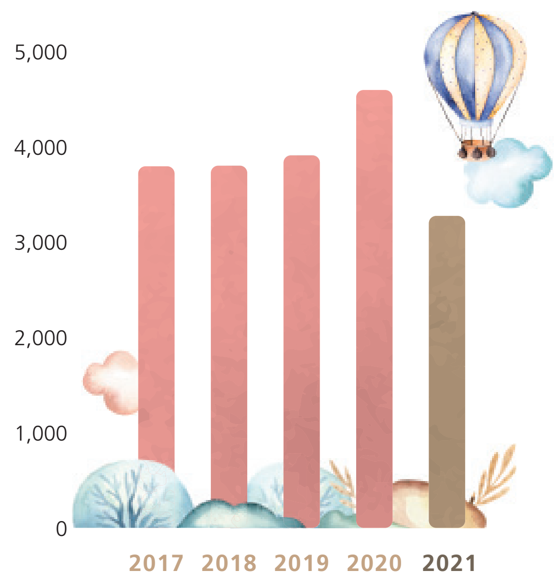
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated)
Revenue *(Note)*	**20,790,144**	22,374,001	22,492,845	20,513,881	18,079,560
Profit before income tax	**4,329,566**	5,961,422	5,046,887	4,904,394	4,960,598
Income tax expense	**(1,039,362)**	(1,352,980)	(1,129,784)	(1,097,261)	(1,159,142)
Profit for the year	**3,290,204**	4,608,442	3,917,103	3,807,133	3,801,456
Non-controlling interests	**(16,603)**	(13,627)	(9,380)	(7,328)	(7,415)
Profit attributable to shareholders of the Company	**3,273,601**	4,594,815	3,907,723	3,799,805	3,794,041
Earnings per share – basic (RMB)	**2.786**	3.864	3.285	3.151	3.149

Note: The financial highlights since the year ended 31 December 2018 were presented according to Hong Kong Financial Reporting Standard 15 and comparatives for the year ended 31 December 2017 have been restated accordingly.

REVENUE
RMB million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY
RMB million

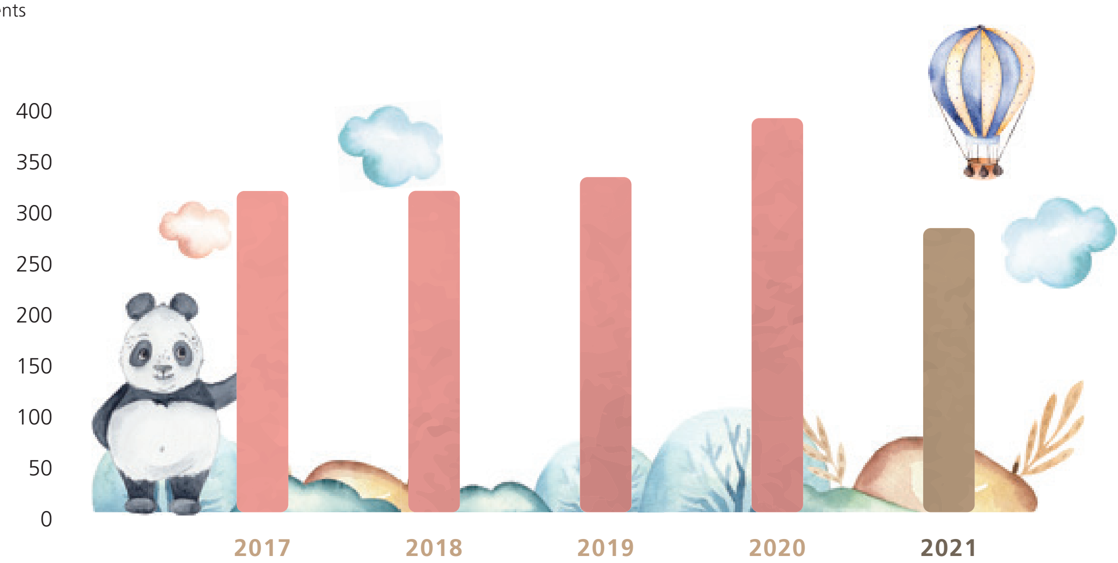


FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Assets					
Property, plant and equipment	**7,296,727**	7,571,430	7,822,457	8,095,356	8,044,858
Right-of-use assets	**979,055**	970,171	988,245	–	–
Construction-in-progress	**509,647**	489,052	543,534	580,790	878,088
Investment properties	**216,293**	213,609	226,233	225,036	216,753
Land use rights	**–**	–	–	844,532	773,327
Intangible assets	**724,778**	755,444	724,620	686,558	503,246
Prepayments for non-current assets	**468,652**	327,989	120,293	124,187	141,132
Deferred income tax assets	**544,762**	435,853	213,211	132,344	172,244
Investment in associates	**53,330**	97,188	101,670	101,670	–
Financial assets at fair value through profit or loss	**194,342**	156,593	–	–	–
Cash and bank balances	**18,246,687**	20,483,739	20,540,270	21,576,830	18,429,716
Long-term bank deposits	**4,035,960**	3,482,147	2,430,082	4,338,000	2,499,738
Other current and non-current assets	**9,022,515**	9,457,710	9,528,160	8,946,849	7,238,938
Total assets	**42,292,748**	44,440,925	43,238,775	45,652,152	38,898,040
Liabilities					
Long-term borrowings	**739,342**	2,492,618	1,246,992	4,240,286	3,247,233
Convertible bonds	**–**	–	–	–	455,537
Deferred income tax liabilities	**224,633**	216,222	171,467	160,170	120,007
Other current and non-current liabilities	**22,048,323**	22,070,611	23,668,438	24,253,017	18,730,962
Total liabilities	**23,012,298**	24,779,451	25,086,897	28,653,473	22,553,739
Non-controlling interest	**243,410**	250,084	278,937	273,519	237,883
Net assets attributable to shareholders of the Company	**19,037,040**	19,411,390	17,872,941	16,725,160	16,106,418

EARNINGS PER SHARE
RMB Cents



COMPANY PRODUCT SERIES

"Hearttex", "H'yeas" and "Homeline" Garbage and Food Bags, Preservation Paper, Table Cloth and Swabber

"Banitore" First-Aid Products and"Bendi" Enema

"Hearttex" Cleansing Products and "Missmay" Personal Care Products

"Anerle" and "Q • Mo" Baby Diapers

"Hearttex", "Pino" and "Bamboo π" Pocket Handkerchiefs, Box And Soft Tissue Paper, Kitchen Towels/Paper and Toilet Rolls

"Space 7", "七度空間", "Xiaohaisen" and "Anerle" Sanitary Napkins, Pantiliners and Overnight Pants

"Hearttex" Wet Tissues And "Junichi" Maternal and Child Care Products

"Elderjoy" and "Banitore" Adult Care Products

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2021. During the year under review, the coronavirus epidemic situation was volatile, yet China's economy was steadily improving, the rising level of national income became a growth driver in the consumer market, and the inelastic demand for personal and household hygiene products remained strong. However, the negative impact of rising wood pulp prices was fully reflected in the second half of the year, coupled with intensified market competition and fragmented sales channels, the Group's operating performance was under pressure. In response to the challenging operating environment, the Group adhered to a rational pricing strategy, enhanced brand strength, promoted the premium products strategy, vigorously developed e-commerce business and expanded into the new retail markets, actively seized business opportunities brought about by the consolidation of the domestic tissue paper industry and new retail, and successfully increased its market share in the second half of the year, further consolidating its industry leadership.

Sze Man Bok
Chairman

For the year ended 31 December 2021, the Group's revenue amounted to approximately RMB20,790,144,000 (2020: RMB22,374,001,000), representing a decrease of 7.1% as compared to the previous year. Profit attributable to the shareholders of the Company fell to approximately RMB3,273,601,000 (2020: RMB4,594,815,000). Basic earnings per share was approximately RMB2.786 (2020: RMB3.864). The Board of Directors recommended the payment of a final dividend of RMB0.70 per share (2020: RMB1.30), which together with the interim dividend of RMB1.00 per share (2020: RMB1.20), bringing the annual dividend to RMB1.70 per share (2020: RMB2.50).

The pandemic has prompted the development of new consumption patterns, and the domestic e-commerce and new retail markets have been growing vigorously. To keep abreast of the new consumption trends and meet the diversified consumer demands, the Group has deepened its development in e-commerce and new retail channels to enhance its omni-channel sales capabilities. During the year, the Group made satisfactory progress in the development of e-commerce and other new sales channels, tapping into the potential of consumer demand. As a result, the proportion of e-commerce sales surged to approximately 23.1%, and sales from other new sales channels have accounted for more than 10.0% of the overall sales.

With the continuous upgrading of the consumption structure and the rising national health awareness, there is considerable growth potential in domestic consumer market. Consumers' growing demand for diverse hygiene products and product quality are driving the personal and household hygiene products industry to develop towards the direction of premiumisation and refinement. The acceleration of China's population ageing has promoted the rapid rise of the elderly care industry. Although the current market penetration rate of domestic adult disposable diapers is still far lower than that of other developed countries, the market size and growth potential of the adult incontinence market are immense. Brand differentiation and high-quality products will be the key to Hengan's success.

Leveraged on its strong research and development and production capabilities alongside solid brand advantages, Hengan continued to develop premium products and optimise product portfolio to fully grasp the needs of consumption upgrades. During the year, the premium sanitary napkin series "Space 7" was well received by the market, the premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) achieved a strong sales momentum, resulting in a significant increase in its sales, and the sales of premium disposable diapers "Q • MO" also achieved robust growth. The Group effectively seized the growth opportunities in the adult incontinence product

CHAIRMAN'S STATEMENT

market in China. The market penetration rate of "ElderJoy" (安而康) continued to increase, and the sales of the Group's adult disposable diapers business maintained positive growth during the year, accounting for approximately 20.8% of the overall sales of the disposable diaper business. The Group will continue to take the premium products strategy as the core of its future development, devote more resources, endeavour to increase the proportion of premium products, increase the revenue contribution of premium products to the Group, and promote the sustainable growth in the Group's overall revenue and profitability.

Looking ahead to 2022, although the COVID-19 pandemic will continue to hamper global economic recovery, China's economy will sustain its high-quality development driven by consumption. The main focus of China's common prosperity policy is to promote consumption expansion and consumption upgrading. As national living standards continue to improve, consumption potential will continue to be unleashed, driving consumer demand for hygiene products and daily necessities, thereby supporting the long-term and healthy development of the hygiene products and daily necessities market. The Group will continue to take the premium products strategy as the core of its future development, develop an in-depth understanding of consumer needs, and flexibly transform and optimise products, channels and sales strategies according to changes in the market environment.

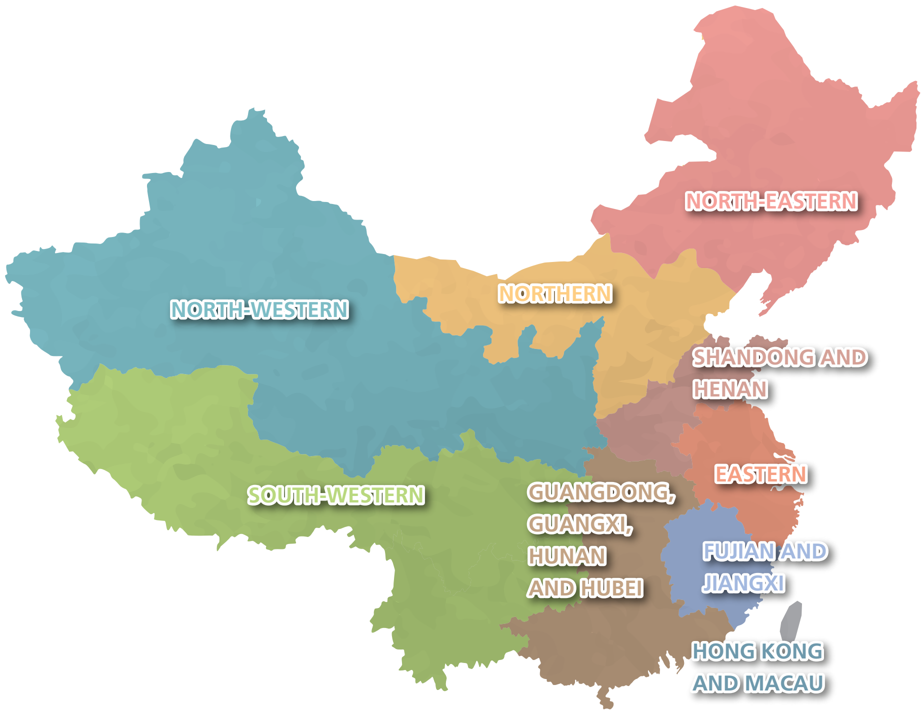
Hengan always adheres to the corporate spirit of "integrity, diligence, innovation and dedication". Over the years, the Group has provided the public with high-quality personal and household hygiene products through continuous learning, improvement, transformation and upgrading, taking care of their daily needs and growing together with customers. In the future, the visionary management will continue to uphold the Group's flexible and adaptive corporate culture, focus on the three main businesses (tissue paper, sanitary napkin, and disposable diapers), and enhance its omni-channel sales capabilities, strive to improve its brand value and image, and consolidate differentiated advantages, thereby further enhancing the reputation and market share of the Hengan brand in the domestic and foreign markets to achieve its strategic goal of becoming the "International Top Household Daily Necessities Corporation" in the long run.

Hengan has always regarded employees as the foundation of the Group's sustainable and healthy development, and nurturing employees is the Group's source of strength for future growth. The Group and employees share the same goals and interests, and the Group is delighted to share the fruits of success with its employees. In January 2022, the Group granted 44,747,000 share options to certain directors and employees of the Group as a means to encourage employees to work together for the long-term prosperity of the Group.

Lastly, I would like to take this opportunity to express my gratitude to every member of staff for working with the Group to promote development and improvement of Hengan in the past year that was filled with challenges. At the same time, I would like to thank business partners for their support and shareholders for their long-term support and trust, growing with the Group for a better life. All members of Hengan International's staff will continue to remain fully committed to leading the Group to a more prosperous future and creating outstanding and sustainable return for all shareholders.

CHAIRMAN'S STATEMENT

REVENUE BY REGIONS IN THE PRC



	2021	2020
NORTH-WESTERN		
Revenue: (RMB million)	750	852
Percentage of total Revenue:	3.6%	3.8%
NORTHERN		
Revenue: (RMB million)	1,023	1,050
Percentage of total Revenue:	4.9%	4.7%
NORTH-EASTERN		
Revenue: (RMB million)	668	690
Percentage of total Revenue:	3.2%	3.1%
SHANDONG AND HENAN		
Revenue: (RMB million)	1,596	1,722
Percentage of total Revenue:	7.7%	7.7%

	2021	2020
EASTERN		
Revenue: (RMB million)	2,825	3,182
Percentage of total Revenue:	13.6%	14.2%
FUJIAN AND JIANGXI		
Revenue: (RMB million)	7,018	6,774
Percentage of total Revenue:	33.8%	30.3%
SOUTH-WESTERN		
Revenue: (RMB million)	1,617	1,787
Percentage of total Revenue:	7.8%	8.0%
GUANGDONG, GUANGXI, HUNAN AND HUBEI		
Revenue: (RMB million)	2,860	3,311
Percentage of total Revenue:	13.8%	14.8%
HONG KONG AND MACAU		
Revenue: (RMB million)	1,919	2,263
Percentage of total Revenue:	9.2%	10.1%

Sze Man Bok
Chairman

Hong Kong, 22 March 2022

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

In 2021, the global volatile coronavirus pandemic situation, coupled with supply chain bottlenecks, brought continuous challenges to the global economic recovery. Last year, China's economy continued to recover steadily. China's gross domestic product ("GDP") grew by 8.1% year-on-year, which exceeded the 6% target set by the government and reached RMB114.4 trillion. Moreover, the total retail sales from the daily necessities category increased by 14.4% year-on-year. However, the growth of domestic per capita income was higher than that of per capita consumption during the year, reflecting consumers' cautious sentiment, they were particularly sensitive to the price of daily necessities. As a result of that, domestic and foreign companies were under pressure to step up promotional pricing efforts during the year. In addition, the protracted pandemic continued to affect global supply chains and trade, slowing domestic and global economic recovery and leading to a challenging operating environment for tissue paper and hygiene products companies.

The pandemic has accelerated the development of new consumption patterns, market penetration of domestic e-commerce and new retail channels has continued to increase. However, the fragmentation of sales channels has dealt a huge blow to sales through traditional channels. Coupled with the intensified competition in the industry during the year, different brands and new retail channels operators in the industry actively seized market share through sales promotion. Therefore, for the year ended 31 December 2021, the Group's revenue fell 7.1% to approximately RMB20,790,144,000 (2020: RMB22,374,001,000) as compared to last year.

The Group actively seized development opportunities arising from the new consumption patterns, vigorously developed its e-commerce business and expanded into the new retail markets. During the year, the Group further increased its proportion in e-commerce sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to approximately 23.1% (2020: 19.1%), and made good progress in the development of new retail sales channels (including online-to-offline (O2O) platform, community group-buying etc.) with sales accounted for more than 10% of the overall sales. In addition, the Group grasped the domestic consumer demand for consumption upgrade, and continued to develop premium products and optimize product mix. Among them, the premium sanitary napkin series "Space 7" was well-received by the market, and the premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) achieved strong sales momentum during the year, resulting in a significant increase in its sales contribution, and the sales of premium disposable diapers "Q • MO" also achieved robust growth.

During the year under review, tissue paper companies increased promotional efforts, which further intensified industry competition. Despite the negative impact of the wood pulp price surge was evident in the second half of the year, in order to stay competitive in the market, the Group has not passed on the cost pressure to consumers, which hampered the profit of the Group's tissue paper business. In 2021, the Group's overall gross profit fell about 17.8% to approximately RMB7,772,318,000 (2020: RMB9,455,855,000), while the overall gross profit margin dropped to 37.4% (2020: 42.3%). Given that the price of wood pulp is still at a high level, together with the Group's relatively low cost of wood pulp in the first half of 2021, it is expected that the gross profit margin will remain under pressure in 2022.

CHIEF EXECUTIVE OFFICER'S REPORT

During the year, operating profit fell 28.9% to RMB4,543,591,000 (2020: RMB6,392,388,000) as the high cost of wood pulp weighed on the profitability of tissue paper business. In addition, the pressure on the Group's profits led to a reduction in the Group's government grants calculated by tax paid (nearly RMB128 million) during the year, coupled with the relatively stable exchange rate of Renminbi against the US dollar during the year resulted in a significant decrease in foreign exchange gains compared to last year. Profit attributable to shareholders of the Company was approximately RMB3,273,601,000 (2020: RMB4,594,815,000), representing a year-on-year decrease of approximately 28.8%. Basic earnings per share was approximately RMB2.786 (2020: RMB3.864).

The Board of Directors declared a final dividend of RMB0.70 per share for the year ended 31 December 2021 (2020: RMB1.30), together with the interim dividend of RMB1.00 per share (2020 first half: RMB1.20) already paid, total dividend for the year amounted to RMB1.70 per share (2020: RMB2.50 per share), amounted to RMB1,988,606,000 (2020: RMB2,958,424,000). Together with the Group's repurchase of a total of 24.22 million shares (2020: 3.4 million shares) at a total consideration of approximately RMB937.0 million (2020: RMB154.0 million) during the year, the Group returned a total of approximately RMB2.93 billion to shareholders during the year, accounting for the Company's profit attributable to shareholders of approximately 89.4% (2020: 67.7%), which was calculated on the basis of the total amounts of proposed dividends and repurchase of shares as a percentage of profit attributable to shareholders of the Company.

Sanitary Napkin

China's feminine care products market is immense, ranking the first in the world. However, the market is highly saturated, and competition is fierce. During the year, many domestic and foreign brands adopted very aggressive promotion strategies in an attempt to seize the market share of mid-to-high-end cities and the youth consumption. In response to the intensifying competition, Hengan adhered to a rational stable pricing strategy to maintain its brand image and developed its sanitary napkin business with product upgrades and premium products to consolidate its market leadership in the mid to high end segment. Leveraged on the high-quality and vibrant image of the Group's premium product "Space 7", it has been well-received by consumers, thereby driving the sales of the overall sanitary napkin business.

The pandemic has spawned new consumption patterns and accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platform and community group-buying) are burgeoning. To align with new consumption trends, the Group actively expanded emerging channels to increase the sales and market share of the sanitary napkin business. While developing new retail channels during the year, the Group inevitably adopted concessionary measures, which exerted pressure on the sales of sanitary napkins in traditional channels in the short term. However, the Group believes that the overall revenue of the sanitary napkin business will be significantly improved in the long run due to the successful reform of sales channels, and the market share will be further increased.

During the year, as sales channels became more fragmented and competitors adopted aggressive pricing strategies to seize market share, sales of the Group's sanitary napkin business recorded a decline of approximately 8.1% to approximately RMB6,116,530,000 (2020: RMB6,654,711,000) in 2021, accounting for nearly 29.4% (2020: 29.7%).

Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy, and the gross profit margin of the sanitary napkin business remained generally stable at approximately 70.5%.

CHIEF EXECUTIVE OFFICER'S REPORT

The Group's sanitary napkin brand, 七度空間 has always been a hot-selling product in Mainland China and has long been a market leader by means of sales volume and market share in the domestic market. Launched in 2020, the premium product "Space 7" which aimed at the mature white-collar market continued to achieve positive sales development during the year. The well-loved "Space 7" continued to help the Group to steadily develop the premium market and gradually increase the proportion of the premium products. The Group's "Space 7" has signed young female artists with positive image as brand ambassadors, thereby injecting girlishness and vitality into the brand. With the brand new theme of "seven degrees of great power captured in a pure girlish heart" (大國七度，存淨少女心), brand ambassador including actress Liu Haocun further rejuvenated the brand and attracted young consumers. The Group believes that the sales of "Space 7" will continue to grow steadily in the future and become a major business growth point, helping the Group expand its share in the sanitary napkin market and gradually increase the proportion of the premium products. In addition, the Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels; the Group will also develop exclusive products for new retail channels and adopt a stable pricing strategy, so as to support the Group's long-term development and consolidate the Group's leading position in the market.

Regarding other feminine care products, the Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, capture growth opportunities brought by consumption upgrade and actively explore opportunities to introduce the Group's sanitary napkin products to overseas markets.

Tissue Paper

The pandemic situation was volatile and national health awareness remained at a high level. However, as consumers were no longer worried about the shortage of tissue paper, consumer sentiment turned more cautious and consumers were more sensitive to prices. During the year, despite the increase in the cost of wood pulp, many tissue paper companies increased promotional efforts and even reduced prices in order to seize market share, resulting in more intense price competition during the peak season in the fourth quarter. Nonetheless, the tissue paper industry is undergoing a consolidation phase in which the weak will be eliminated and the strong will remain. Since small and medium-sized tissue companies are not be able to pass on the rising costs to consumers, it will be very difficult to maintain long-term price reductions and promotions under the pressure of high costs. In this challenging market environment, Hengan leveraged its scale advantage, strong brand competitiveness and diversified product portfolio to capture development opportunities and successfully seized market share in the second half of the year. Underpinned by the robust sales of the premium "Cloudy Soft Skin" series and wet wipes tissue products, the Group's overall tissue paper sales achieved a contrarian growth in the second half of the year, effectively narrowing the decline in the sales of the tissue paper business for the full year. In 2021, the revenue of the Group's tissue paper business decreased by approximately 5.2% to RMB9,842,429,000 (2020: RMB10,382,758,000), accounting for approximately 47.3% (2020: 46.4%) of the Group's overall revenue.

CHIEF EXECUTIVE OFFICER'S REPORT

In the first half of the year, the price hike in wood pulp did not have a significant impact on the Group as the Group still held low-cost wood pulp inventory for most of the time. However, as the Group's low-cost wood pulp inventory was exhausted, the cost pressure of soaring wood pulp prices was fully reflected in the cost of sales in the second half of the year, coupled with the Group's promotional expenses during the year to maintain market competitiveness, the gross profit margin in 2021 dropped to 26.4% (2020: 33.5%).

If excluding the factor relating to the significant decline in the sales of the jumbo roll (raw paper) business during the year, the sales of the Group's core tissue brand "Hearttex" in 2021 was recorded at a similar level as compared to 2020 and its sales volume increased by close to the mid-single digit year-on-year.

Against the backdrop of the pandemic, the demand for tissue paper products continued to be strong, and the Group's premium tissue paper products were well-received by consumers. Among them, the sales of the "Cloudy Soft Skin" series performed well. It is made with the Group's original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable user experience to its customers with cotton soft skin-like tissue paper. The Group has also obtained a national design patent on its unique embossing technology. The product is safe and does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference. In terms of wet wipes business, although it recorded a revenue decline in the first half of the year due to a high comparison base, thanks to the popular upgraded wet wipes, the Group continued to expand its market share in domestic wet wipes market and returned to double-digit growth in the second half of the year, maintaining its leading position in the wet wipes market. As a result, the sales of wet wipes business for the full year was approximately RMB735,612,000 (2020: RMB733,192,000), accounting for approximately 7.5% of the sales in the tissue paper business (2020: 7.1%).

As the living standards of people continues to improve and health awareness remains at a high level, the penetration rate of tissue paper in Mainland China is still far lower than that of other developed countries, there is still great potential for growth in the overall tissue paper market. In the face of the increasingly fierce market competition, the Group will continue to develop more high-quality products in accordance with market demand, seize the business opportunities of domestic tissue paper market, strive to expand its market share and strengthen the Group's leading position in the tissue paper market. The Group maintained its production capacity at approximately 1.42 million tons during the year. The Group will increase capital expenditure to purchase new production lines and improve production efficiency in the coming year to actively respond to the future market growth potential and the market demand for high-quality products.

Disposable Diapers

Against the background of consumption upgrading and ageing population, there is still some room for growth in the domestic disposable diaper market. With the rising national purchasing power and the change of parenting concept, the baby disposable diaper market has sustained a growth momentum in recent years. It is predicted that the market size of the domestic baby disposable diaper will grow to about RMB63 billion in 2023, an increase of 13.10% over 2022. Underpinned by the domestic ageing population and the improvement of citizens' living standards, the Group believes that there are ample opportunities in the overall diaper market.

In an effort to meet consumers' growing demand for product quality and safety, the Group actively developed and upgraded a series of quality baby and adult care products. During the year, the Group's upgraded premium "Q • MO" baby disposable diapers performed remarkably, with sales jumped approximately 18.6% year-on-year, and its proportion further increased to about 26.2%. In addition, the Group effectively seized the growth opportunities of the adult incontinence products market in China. Benefiting from the increase in the penetration rate of domestic adult disposable diapers and the satisfactory export sales of the products, the market penetration rate of "ElderJoy" (安而康) continued to increase, and the sales of the Group's adult disposable diapers business maintained positive growth during the year, accounting for approximately 20.8% of the overall sales of the disposable diaper business.

In 2021, the Group strengthened the development of e-commerce and maternal sales channels, and achieved satisfactory sales performance. The proportion of sales of disposable diapers through e-commerce and maternal channels increased to approximately 50% and over 14.5%, respectively. However, as the sales channels of the Group's disposable diaper market have become more diverse, the sales in traditional channel have accelerated decline by more than about 20% and offset the sales growth of the Group's disposable diaper premium. On top of that, other brands adopted more aggressive promotion strategies to seize market share, market competition has become more intense, which resulted in a drop in the sales of the Group's disposable diaper business by about 14.5% to approximately RMB1,219,445,000 (2020: RMB1,425,567,000), accounting for approximately 5.9% of the Group's overall revenue (2020: 6.4%).

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In terms of gross profit margin, despite the increase in the sales and proportion of premium products, the tight supply of superabsorbent polymer, a raw material used in the manufacturing of disposable diapers during the year has led to cost escalation and the additional promotional cost incurred relating to the clearance of the mid-end diaper products, thus, the gross profit margin of the disposable diaper segment dropped to approximately 37.7% (2020: 39.6%).

During the year, the Group continued to seize opportunities brought by consumption upgrade to further develop the premium product market and improve product quality. The "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very well-loved by the market. The Group will continue to optimise "Q • MO" products to instil growth momentum into the Group's future development. In addition, as the nation puts more emphasis on the development of the elderly care industry, there will be ample room for development in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the "ElderJoy" and "Banitore" (便利妥) brands and increasing its market share in Southeast Asia at the same time.

In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternal stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by the new retail. On the other hand, through the cooperation with maternal stores, nursing homes and hospitals, it will expand the Group's customer base and provide a one-stop product sales chain, bringing sustainable growth momentum to the disposable diaper business, supporting the long-term development of the adult health care business and continue to tap the growth potential of the adult health care market.

Other Income and Household Products

Regarding other income and household products, it mainly includes revenues from the raw material trading business, household products business, Wang-Zheng Group in Malaysia and medical related products and its revenue decreased by approximately 7.7% year-on-year to approximately RMB3,611,740,000 (2020: RMB3,910,965,000), which was mainly attributed to the decline in demand for surgical masks in view of the stabilisation of the pandemic and the decline in sales of overseas business, including household business and Wang-Zheng Group business, affected by the cities' lockdown due to the pandemic.

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During the year, the revenue from the raw material trading business remained stable at approximately RMB2.5 billion, while the sales of surgical masks fell on lower demand amid stabilising pandemic and pharmacare products recorded a revenue contribution of about RMB108,065,000 (2020: RMB326,141,000). Affected by the pandemic leading to cities' lockdown, the revenue from Wang-Zheng Group during the year decreased by approximately 11.8% year-on-year to approximately RMB351,553,000 (2020: RMB398,384,000).

Revenue from the Group's household products segment was approximately RMB314,614,000 (2020: RMB400,232,000), representing a year-on-year decrease of approximately 21.4%, accounting for 1.5% of the Group's revenue (2020: 1.8%), which was mainly attributed to the decline in exports of household products due to the pandemic. Included in the household products revenue, the revenue from Sunway Kordis was approximately RMB205,510,000 (2020: RMB227,265,000).

In 2021, the Group greatly expanded the product range of its brand, "Hearttex" (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will seek to leverage these overseas sales network to bring Hengan's products to overseas market.

Looking ahead, the Group believes that the growth potential in the business of household products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness.

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 60 direct partnerships with major clients or distributors. Turnover of overseas channel (including Wang-Zhang Group business) for the full year was approximately RMB1,709,260,000 (2020: RMB2,166,847,000), accounting for approximately 8.2% of the Group's overall sales (2020: 9.7%).

The Group's Wang-Zhang Group business in Malaysia was affected by the pandemic and recorded a turnover of approximately RMB351,553,000 (2020: RMB398,384,000) for the full year, accounting for approximately 1.7% of the Group's overall sales (2020: 1.8%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more premium products under the Hengan brand and further increase its market share in Malaysia and Southeast Asia.

On the other hand, subsequent to the Supreme Administrative Court's decision to reject the environmental permits for Finnpulp in December 2019, the Group has assessed and made a provision for impairment of approximately RMB43.0 million in relation to the investment during the year in view of the uncertainty of the outlook of the investment.

E-commerce and New Retail Channel Strategies

Online shopping has been growing rapidly under the pandemic and has become the key growth driver in the domestic consumption market. In 2021, the online retail sales of physical goods reached RMB10 trillion with an increase of 12.0%, demonstrating a huge potential in the online market. New shopping channels (including O2O platform and community group-buying) and mainstream e-commerce platforms which complement each other are thriving together. Online shopping has become part of the daily life of domestic consumers. The Group seized the business opportunities brought by new trends and strived to expand e-commerce and other new retail channels. Its products have been launched on various e-commerce platforms and new shopping channels. At the same time, it actively integrated online and offline channels to provide consumers with a seamless omni-channel consumer experience.

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In 2021, e-commerce development maintained a strong momentum and the sales of the Group's e-commerce channels (including Retail Integrated and New Channel) soared over 10% to approximately RMB4.8 billion (2020: RMB4.3 billion), accounting for about 23.1% of the Group's overall sales (2020: 19.1%).

During the year, the Group stepped up its efforts to develop other new channels (including O2O platforms, community group-buying, etc.) and achieved remarkable results, with sales revenue exceeding RMB2 billion, accounting for approximately 10% of the Group's overall sales. During the year, the Group participated in a number of live streaming sales activities on e-commerce platform, TikTok, which effectively enhanced its brand influence. The Group leveraged live streaming sales to directly interact with consumers to strengthen the emotional connection between the Group's brands and consumers. The Group set up live streaming rooms for its tissue paper brand "Hearttex" and sanitary napkin brand "七度空間" in factories to carry out live streaming, which not only effectively enhanced consumers' confidence in the brand, but also drove sales growth through in-depth expansion of online consumer groups. In addition, the live streaming of "Hearttex" brand ambassador Wang Linkai and TikTok influencer Rainbow Couple (彩虹夫婦) also brought robust sales performance. During the year, the Group's "Hearttex" brand and "七度空間" brand achieved leading market shares in several major new retail channels, including TikTok.

In the future, the Group will actively analyse the data of end customers and use such data to precisely allocate cost in devising relevant sales strategies, so that the Group will achieve its strategic goal of becoming the "International Top Household Daily Necessities Corporation". In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide consumers with different customized products on each channel, and strive to develop new retail channels and consolidate sales through traditional channels.

The Group launched a differentiated product portfolio based on the consumption characteristics of customers on e-commerce platforms and new retail channels, hoping to bring speciality products and stable pricing into the new retail market so as to minimise impact on sales and profits, and reduce the impact on other channels, while maintaining its competitiveness. In view of catering the new consumer trends, the Group will continue to focus on the needs of consumers. Capitalising on the new technologies and big data, the Group will increase resources in developing e-commerce and new retail channels. By leveraging on the shopping festivals launched on the online platforms, the Group would attract the consumers with the new consumption models such as limited-edition merchandise, community group-buying, and livestream sales, thus increasing the Group's market share in the e-commerce and new retail channels sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. Due to the Group's increased investment in brand promotion in the second half of the year, the Group's selling and administrative expenses for the year only slightly decreased by 6.3% year-on-year to approximately RMB4,526,293,000. Since the decline in overall revenue was greater than the decrease in expenses, the proportion of the Group's selling and administrative expenses to total revenue for the year slightly increased to approximately 21.8% (2020: 21.6%). The Group believes that the overall revenue is expected to resume growth in the coming year, together with the effective sales and promotion strategies, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in U.S. dollars. Due to the appreciation of Renminbi in 2020, the Group recorded a huge operating exchange gain. However, the exchange rate of Renminbi against the U.S. dollar recorded only a slight increase in 2021. Therefore, the Group's operating exchange gain fell significantly to approximately RMB109,152,000 (2020: RMB249,214,000).

As at 31 December 2021, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

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Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2021, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB22,282,950,000 (31 December 2020: RMB23,970,698,000); domestic corporate bonds amounted to zero (31 December 2020: RMB998,938,000); and bank borrowings and other borrowings amounted to approximately RMB18,227,095,000 (31 December 2020: RMB19,837,362,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. From March to April 2021, the Group issued super short-term commercial papers in three batches of RMB3.0 billion in total, the coupon rates are between 2.90% to 3.08% per annum. The three batches of super short-term commercial papers mature in 180 to 181 days from the respective issue date.

In June 2020, the Group also successfully registered for the proposed issue of short-term commercial papers of RMB3.0 billion. In May 2021, the Group has finished the issue of RMB1.0 billion first-term commercial papers, the coupon rate is 2.90% and the commercial papers will mature in 182 days from the issue date. During the year, the Group has completed the repayment of the above super-short-term and short-term commercial papers with a total value of RMB4.0 billion.

In addition, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion in December 2021.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 3.70% (2020: from 0.54% to 4.30%).

As at 31 December 2021, the Company made appropriate use of internal cash to repay all super short-term and short-term commercial papers, therefore the Group's gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) significantly lowered to approximately 95.7% (31 December 2020: 107.3%), while the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 21.3% (31 December 2020: negative 16.1%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position.

During the year, the Group's capital expenditure was approximately RMB640,396,000 (2020: RMB586,651,000). As at 31 December 2021, the Group had no material contingent liabilities.

Share Option Scheme

Employees have always been the most important assets of Hengan Group. The Group has always attached great importance to cultivating and enhancing employees' sense of belonging to the Group, and insisted on aligning employees' interests with Hengan's interests, thereby realising a win-win situation between employees and Hengan.

On 18 January 2022, the Group granted 44,747,000 share options to certain directors and employees of the Group to subscribe for a total of 44,747,000 ordinary shares of HK$0.10 each in the share capital of the Company. The exercise price of the share options granted is HK$41.48 per share. The grantees include Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Hui Ching Lau, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Hui Ching Chi, Mr. Sze Wong Kim and Mr. Li Wai Leung, Executive Directors of the Company.

The share option scheme aims to motivate employees, attract and retain high-quality and experienced personnel who work for the Group or contribute to the Group, and encourage employees to work together for the overall interests of Hengan and shareholders, promoting the sustainable development of the Group so as to enhance the value of the Group and shareholder value.

CHIEF EXECUTIVE OFFICER'S REPORT

Latest Awards

In 2021, awards and honours won by the Group were as follows:

Awards/Honours	Organisation
National Advanced Individual of Private Economy in the Fight Against COVID19	United Front Work Department, Ministry of Industry and Information, State Administration for Market Regulation, All-China Federation of Industry and Commerce
China Parenting Network – Product Choice of Mothers "Annual Popularity Award of Disposable Diapers" 2020	2020 China Parenting Network
Annual Best Performance Award in Disposable Diaper Category	myguancha.com
Outstanding Panda Bonds Issuer Outstanding Anti-Epidemic Financial Institution Outstanding Anti-Epidemic Management Team Outstanding Anti-Epidemic Individual in Financials	Shanghai Clearing House
Annual Meritorious Service Award (Private Enterprise category) 2016–2020	Quanzhou Government Office, Quanzhou People's Government
Top 500 Chinese Listed Enterprises by Revenue 2020	Eastmoney Research centre
JD 618 Top Ten Emerging Market Brand Award 2021	JD.com
"Highest Ethical Standards and Best Conduct of Business Practices" 5 Star level Safe Enterprise 2020	Jinjiang Leading Group for Safety and Development
Top 10 Brands rated by Chinese Consumers	"Asia Brand Footprint 2021" report by Kantar Consumer Index
Excellent Private Enterprise in Fujian Province	People's Government of Fujian Province
Best Managed Chinese Companies	Deloitte China
All-Asia Executive Team 2021 rankings: Most Honoured Company: Hengan International, Best IR Programs, Best ESG, Best CEO (Mr. Hui Lin Chit) and Best CFO (Mr. Li Wai Leung) in consumer staples sector	Institutional Investor (Magazine)

CHIEF EXECUTIVE OFFICER'S REPORT

Products and Raw Materials Research and Development

Adhering to the "consumer-oriented" market principle, Hengan has stayed committed to its corporate vision of becoming the "International's Top Household Daily Necessities Corporation" through sustainable innovation and provision of high-quality products and services". The Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to consumers' pursuit of products whose manufacturing process and ingredients support environmental protection and sustainable development, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environment-friendly production technologies.

Human Resources and Management

During the year, the Group effectively enhanced the efficiency of human resources. Implemented a more scientific and reasonable 'target remuneration' system, link the salary system with the staff job responsibilities and task goals, thus stimulate the staff enthusiasm for work, and improve work efficiency. As at 31 December 2021, the Group employed approximately 23,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

Corporate Social Responsibility

Taking environmental and social sustainability as its responsibility, Hengan continues to strengthen corporate ESG management, pays attention to quality innovation, environmental protection, energy conservation and emission reduction, talent training, safety and health, and philanthropy, adheres to sustainable development, thus laying a solid foundation for achieving 100 billion in 100 years.

In order to improve ESG transparency and convey the concept of and practice corporate sustainable development, Hengan actively responded to domestic and foreign ESG ratings, and its rating performance steadily improved year by year. Among them, the Group's FTSE Russell ESG rating and the S&P Dow Jones Indices ESG rating are both higher than the industry average.

Philanthropy

As a leading brand of household products in China, Hengan continues to promote the high-quality development of corporate social responsibility and public welfare undertakings, and assumes its own responsibility. During the combat against the epidemic in 2021, the Group responded rapidly when the epidemic resurged, and supported the national anti-epidemic work. The Group donated adult disposable diapers, sanitary napkins, protective suits, medical masks, hand sanitisers and other items to front-line medical staff and provided anti-epidemic materials for front-line workers in cities. In response to the heavy rainfall in Henan, the Group donated a total of RMB10 million worth of products including sanitary napkins, tissue paper, wet wipes and disposable diapers to the disaster-stricken areas in Henan. The Group also cares about women's health and education. It donated RMB10 million in cash and materials to the "Spring Blossom Project", and donated hygiene products with a total value of over RMB2 million to approximately 3,000 impoverished women in Jinjiang City, Fujian Province. In 2021, the Group was honoured with the "Responsibility Gold Award 2021" at the Social Responsibility Conference, while Executive Director of the Group, Mr. Hui Ching Lau was honoured with the "Most Influential Individual 2021"; the Group also received the "Philanthropy Promotion Award 2021", etc.

CHIEF EXECUTIVE OFFICER'S REPORT

Environmental Protection and Carbon Reduction

Hengan has always been practising the concept of green, low-carbon, and sustainable development, integrating sustainable development into daily operations and production and contributing to the realisation of the "30•60" dual carbon goals and the promotion of green and low-carbon circular development. In 2021, Hengan's greenhouse gas (GHG) emission intensity was 0.65tCO2e/revenue in RMB10,000; the energy consumption per unit product of the papermaking sector of the Group was 0.32tonnes coal, far lower than the advanced value standard of 420kg coal/ton of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825–2015); more than 99% of the wastewater from paper production was recycled. The water consumption per unit of the paper making sector of the Group was 5.2tonnes, much lower than the national standard upper limit of water withdrawal per ton of product specified in GB/T18916.5 "Water Quotas Part 5: Paper Products".

On 8 December 2021, the Group was awarded the industry's first vice-chairman unit of the Carbon Neutrality Committee of China Energy Conservation Association, actively participating in the initiation of Chinese corporate commitment to social responsibility and carbon neutrality with concrete actions.

Hengan promotes value chain management for sustainable development. It continues to promote responsible wood pulp procurement and work hand-in-hand with suppliers to promote the sustainable development of the wood pulp supply chain. In 2021, six paper production companies under Hengan received the Forest Stewardship Council (FSC)/Chain of Custody (CoC) certification.

Talent Development

The Group earnestly protects the rights and interests of employees, provides employees with diversified training programmes, comprehensive remuneration and benefits and promotion systems, achieving a win-win situation between corporate value and personal value. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

The Group established "Hengan Management School" to carry out all-round and staged skills and competence training for employees at all levels; established an internal competition model to open up management promotion channels, and fully implemented the position competition mechanism from entry-level employees to department directors; built the platform-based small sales team operating model – the Amoeba business model, which provided a great opportunity for the Group's second entrepreneurship and personal development of employees. In 2021, the Group offered diversified training programmes for its employees, such as the EDP growth programme for middle and senior managers in cooperation with Xiamen University, etc., to help employees broaden their horizons, reshape themselves, and keep pace with the times.

As of the end of 2021, Hengan had a total of approximately 23,000 employees, of which 59%were female employees. The total number of training hours exceeded 230,000 hours, the number of management positions promoted was 94, and the percentage of employees joining the labour union was 100%.

Health and Safety

The Group actively implements the main responsibility of the enterprise, implements unified and systematic management of the Group, and improves safety capabilities and performance to achieve high-quality and sustainable development. Hengan established an occupational health and safety management system and passed the certification, established a Safety Management Committee to lead the management of safety affairs, make major safety decisions, built a safety management process framework for the entire life cycle, and carried out safety work in the entire operation process in a standardised and orderly manner. Hengan progressively promotes the development blueprint and strategy of comprehensive safety management, and successfully completed the first phase of tasks in 2021.

Hengan cares about physical and psychological health of employees and organises regularly safety rules training, firefighting training and drills to raise the safety awareness and self-protection capabilities of all employees. In 2021, the Group had no work-related fatalities, incidence of occupational disease was zero, and the number of working days lost due to work injury was 3,033 days.

In 2021, Hengan devoted unrelenting efforts in the prevention and control of the epidemic, and adopted various measures to improve the epidemic prevention and control, standardised and performed proper employee health management, thereby achieving zero infection and 100% vaccination rate among over 20,000 employees.

CHIEF EXECUTIVE OFFICER'S REPORT

Outlook

Looking ahead to 2022, the coronavirus pandemic continues to ravage the world, supply chain disruption and rising inflationary pressures will hinder global economic growth. Despite the strong vitality and resilience of China's economy, consumption has become the key growth driver of China's economy, external uncertainties such as the spread of the epidemic still bring variability to China's economic growth. The Group will continue to closely monitor the epidemic situation at home and abroad and changes in market trends in order to respond agilely and take appropriate actions.

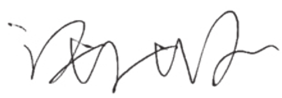
Due to the price trend of wood pulp remain uncertain and as the Group had relatively low-cost wood pulp inventory in the first half of 2021, the Group expects that the high cost of wood pulp will continue to exert pressure on the profitability of the Group in most of the time in 2022. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, polymers, and other raw materials.

Against the backdrop of the fierce competition in the tissue paper market, strict energy consumption requirements will accelerate the upgrading of the industry. It is expected that the domestic tissue paper industry will be further consolidated, the weak will be eliminated and the strong will remain. As an industry leader, Hengan, leveraging on its strong research and development capability, production capacity and positive brand image, the Group is expected to fully grasp the growth opportunities arising from the rapid recovery of the market after the industry consolidation, continue to develop healthily and further increase its market share.

Under the new normal, national health awareness remains at a high level, high-quality personal hygiene products have become essential products, and domestic consumption upgrades will continue to promote the refinement and high-quality development of the personal hygiene products market. The Group will continue to focus on the implementation of premium products strategy, strive to increase the proportion of premium products, increase the revenue contribution of premium products to the Group, and promote the continuous improvement of the Group's overall profitability.

Regarding sales channels, the digitalization of the global retail industry has become an irreversible trend. New retail platforms have become an important sales channel. The Group will keep abreast of changes in consumers' consumption patterns and preferences, step up its investment in the new retail markets so as to increase the Group's coverage in new sales channels to reach a broader customer base, thereby increasing the sales proportion of tissue paper, sanitary napkins, and disposable diapers in e-commerce and new retail channels. At the same time, the Group will comprehensively improve online and offline retail to create an omni-channel, enhance brand competitiveness by providing customers with a more convenient and seamless consumption experience, and inject impetus into the long-term development of the Group. Moreover, the Group will fully exploit the digital technology to accurately grasp consumer preferences and market trends so as to put forward effective strategies in product development and manufacturing, market distribution and sales channels.

As a leading enterprise in the personal and household hygiene products industry in China, Hengan will continue to adhere to the mission of "Growing with You for a Better Life", and strive to build a high-quality, reliable and sustainable personal and household hygiene products enterprise. In 2022, the Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), seize the opportunities in the "new retail" era, vigorously expand new sales channels, and enhance the omni-channel sales capabilities of the three main businesses. Furthermore, the Group will continue to enhance its brand, appropriately allocate resources to brand building, consolidate its outstanding brand advantages, and take premium products strategy as its long-term development goal. At the same time, the Group will continue to take business expansion as the long-term development target, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and promote international development of Hengan's brand, striving to become the "International Top Household Daily Necessities Corporation".



HUI CHING LAU
Chief Executive Officer

Hong Kong, 22 March 2022

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 72, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders and a member of the Nomination Committee of the Company. Mr. Sze has over 40 years of experience in manufacturing and distribution of consumer products. He is the father of Mr. Sze Wong Kim, an Executive Director of the Company. Mr. Sze is currently an non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited (stock code 1583), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Sze was appointed as executive director of Wang-Zeng Berhad ("WZB") on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was designated as non-independent non-executive director of WZB on 25 September 2017.

Mr. Hui Lin Chit (former known as Hui Chi Lin), aged 68, is the Deputy Chairman and executive director of the Company. He provides support for the Group's long-term development. Mr. Hui is one of the founding shareholders of the Company and has over 40 years of experience in manufacturing and distribution of consumer products. He resigned as Chief Executive Officer, the authorized representative (for the purposes of Rule 3.05 of the Listing Rules) (the "Authorized Representative"), a member of nomination committee and remuneration committee of the Company on 18 August 2021. During the period of 1998 and 18 August 2021, Mr. Hui was appointed as Chief Executive Officer of the Company and responsible for strategic planning, human resources and the overall management of Hengan Group. Mr. Hui has the title of senior economist in People's Republic of China ("PRC"). He is also a Deputy Chairman of All-China General Chamber of Industry and Commerce, Chairman of Fujian Province Industry and Trade Association, United Nations Maritime-Continental Silk Road Cities Alliance, and the Jinjiang City Charity Federation.

Mr. Hui was a member of the 9th, 10th and 11th National Committee of Chinese People's Political Consultative Conference (CPPCC) from 1998 to 2012. During the period from 1997 to 2011, he was also a member of the Executive Committee (at the 8th CPPCC National Committee) and Standing Committee (at the 9th CPPCC National Committee), and deputy chairman (at the 10th CPPCC National Committee) of All-China Federation of Industry and Commence. He was also a deputy chairman of the 9th, 10th and 11th Quanzhou Municipal CPPCC Committee and the chairman of the 10th, 11th, 12th and 13th Quanzhou Federation of Industry and Commence.

He is the father of Mr. Hui Ching Lau, Chief Executive Officer and an Executive Director of the Company and Mr. Hui Ching Chi, an executive director of the Company. Mr. Hui was the Chairman and is currently a non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited, a company listed on the Main Board of the Stock Exchange. Mr. Hui was appointed as executive director of WZB on 15 June 2017 and designated as non-independent non-executive chairman of WZB on 25 September 2017.

Mr. Hung Ching Shan, aged 72, is responsible for supervising the Group's purchasing tender assignments. He has over 43 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Hui Ching Lau, aged 42, appointed as Executive Director of the Company on 10 December 2020. He was further appointed as Chief Executive Officer, Authorised Representative, a member of the nomination committee and remuneration committee of the Company on 18 August 2021. He has about 20 years of experience in corporate management and is responsible for providing planning, guidance and strategic advice on strategic development and overall management of the Group. He is currently an executive director and chairman of the board of directors of Qinqin Foodstuffs Group (Cayman) Company Limited (a company whose shares are listed on the main board of the Stock Exchange of Hong Kong, stock code: 1583). He is the managing director of Lianjie Investments Group Limited.

Mr. Hui was a director of AGORA Hospitality Group Co., Ltd. (a company whose shares are listed on the Tokyo Stock Exchange, stock code: 9704) from 29 March 2018 to 3 December 2020. Mr. Hui was a non-executive director of China Huiyuan Juice Group Limited ("Huiyuan Juice") from 29 January 2018 to 10 January 2019. Huiyuan Juice is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange of Hong Kong (Stock code: 1886) until 18 January 2021 which the listed status were cancelled by the stock exchange, being principally engaged in production and sale of fruit juice, fruit and vegetable juice and other beverages. In October 2019, a winding-up petition and provisional liquidators application at the High Court of Hong Kong was served on Huiyuan

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Juice. For further details of the proceedings, please refer to the announcements of Huiyuan Juice including that dated 24 January 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0124/ltn201901249978.pdf), 24 October 2019 (https://www1.hkexnews.hk/listedco/ listconews/sehk/2019/1025/2019102401207.pdf), 19 November 2020 (https://www1. hkexnews.hk/listedco/listconews/sehk/2020/1119/2020111901298.pdf) and 30 November 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001375.pdf).

Mr. Hui is a member of the 11th and 12th Fujian Provincial CPPCC Committee since 2013. He is the executive vice president of the Fourth Youth Committee of All-China Federation of Returned Overseas Chinese since December 2014. Mr. Hui is also the vice chairman of Fujian Federation of Industry and Commerce (11th session), an executive committee member of All-China Federation of Industry and Commence (12th session), a standing committee member of the 10th Committee of All-China Federation of Returned Overseas Chinese, and the life honorary president of the World Jinjiang Youth Association.

Mr. Hui graduated with a Degree of Bachelor of Arts in Accounting & Finance and Economics from the University of Kent at Canterbury in July 2001, and a Degree of Master of Science in Finance from the University of London (Imperial College of Science, Technology and Medicine) in November 2002, in the United Kingdom. He also received a Degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2010 in the People's Republic of China.

Mr. Hui is the son of Mr. Hui Lin Chit, an executive director and the Vice-chairman of the Board of the Company. Mr. Hui is also the brother of Mr. Hui Ching Chi, an executive director of the Company.

Mr. Xu Shui Shen, aged 52, is the Chief Executive Officer of Tissue Paper Division of the Group, responsible for the overall management and business development of Tissue Paper Division. He joined the Group in 1985 and has over 37 years of experience in operation management and business development. He graduated from business administration department in the Huaqiao University and holds the title of senior economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo, an executive director of the Company.

Mr. Xu Da Zuo, aged 55, is the Director of Capital Management of the Group. He is responsible capital operation and investment management of the Group. He was the Chief Financial Officer of the Group. Joining the Group in 1985, Mr. Xu has over 37 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is an elder brother of Mr. Xu Shui Shen, an executive director of the Company.

Mr. Xu Chun Man, aged 47, is responsible for the Group's overall business development strategy. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 31 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 46, is responsible for overall business strategy of the Group. Before joining the Group on 1 June 2010, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He was appointed as the Company Secretary and authorised representative of the Company on 30 November 2016 and resigned on 3 January 2017. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and an executive director of the Company.

Mr. Hui Ching Chi, aged 37, is the Chief Executive Officer of Supply Chain Management and responsible for the overall strategy relating to the Group's supply chain planning, purchasing of raw materials, logistic management and international business. He was the Director of Supply Chain Management of the Group from 2015 to 2016. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Vice-Chairman and an executive director of the Company and a younger brother of Mr. Hui Ching Lau, the Chief Executive Officer and an executive director of the Company. Mr. Hui was appointed as executive director of WZB on 25 September 2017.

Mr. Li Wai Leung, aged 43, is appointed as the Chief Financial Officer of the Group on 26 March 2020. Mr. Li is also the Company Secretary and Authorized Representative of the Company. He has over 21 years of experience in accounting, finance and business advisory work. Before joining the Group on 3 January 2017, Mr. Li worked as the chief financial officer of various sizable PRC based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Li was appointed as executive director of WZB on 15 June 2017.

Independent Non-Executive Directors

Mr. Chan Henry, aged 56, is an Independent Non-Executive Director of the Company appointed in 1998. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Chan has over 35 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, and an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange with stock code 0311, which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master degree in Business Administration.

Ms. Ada Ying Kay Wong, JP, aged 62, is an Independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Ms. Wong, a practicing solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She is also a culture and creative education advocate. She is the supervisor of HKICC Lee Shau Kee School of Creativity and the council member of Hong Kong Shue Yan University. She was Chair of the Wanchai District Council (2004–2007), and is currently a member of Museum Advisory Committee and Art Sub-committee, Museum Advisory Committee. Currently, she is an independent non-executive director of Pak Fah Yeow International Limited, a company listed on the main board of the Stock Exchange with stock code 0239.

Mr. Theil Paul Marin, aged 68, was appointed as an independent non-executive director and also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 17 May 2019. He has had extensive experience in the finance and investment industry. He is the founder and has been the Chairman of Shenzhen Zhong An Credit Investment Co., Ltd since January 2008. He is an independent non-executive director of Qin Qin Foodstuffs Group (a company listed on the Stock Exchange of Hong Kong with stock code: HK1583) ("QinQin") since June 2016. He was an independent director of China Industrial Bank Co. Ltd., (stock code: SH601166) from October 2013 to June 2021 and redesignated as a supervisor since then. He was also previously a director of the Company from July 2000 to September 2001.

Mr. Theil graduated from Yale University with a Degree of Bachelor of Arts in June 1975 and a Degree of Master of Arts in East Asian Studies in June 1975. He also graduated with a Degree of Juris Doctor and a Degree of Master of Business Administration from Harvard Law School and Harvard Business School in June 1980 and November 1981 respectively.

Mr. Ho Kwai Ching Mark, aged 60, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently the co-founder and CEO of ProMEX Limited, an independent non-executive director of Lee Kee Holdings Limited (stock code 0637) and Green Future Food Hydrocolloid Marine Science Company Limited (stock code 1084). He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 27 years of experience in the securities and futures industry.

Mr. Ho received a Bachelor Degree in Social Sciences from the University of Hong Kong in 1984 and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Zhou Fang Sheng, aged 72, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has more than 28 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. From 2012 to 2017, Mr. Zhou was appointed as an independent non-executive director of Beijing BDStar Navigation Co., Ltd (listed on Shenzhen Stock Exchange). Mr. Zhou is currently appointed as a supervisor of Sinotrans Limited, a company listed in Hong Kong with stock code 598. Mr. Zhou is also an independent non-executive director of China National Building Material Company Limited (a company listed in Hong Kong with stock code 3323) and an independent director of Chenguang Biotech Group Co.,Ltd. (a Shenzhen stock code 300138).

Senior Management

Mr. Xu Wen Mo, aged 56, is the Director of Risk Department of the Group and responsible for risk management and internal control of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 33 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Ms. Liu Ying, aged 53, is the Director of the Administration Department of the Group. She is responsible for the overall management of the Group's brand public relations, corporate culture, and administrative logistics. Joining the Group in 1995, she has accumulated over 35 years of experience in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Mr. Wang Xiang Yang, aged 53, is the Procurement Director for Supply Chain Development. He is responsible for the overall purchasing of raw materials and trade business of the Group. He joined the Group in 1999 and resigned in February 2015. His position before leaving the Group was Director of Supply Chain Management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang re-joined the Group in February 2017 and has over 23 years' experience in supply chain and logistic management. Mr. Wang graduated from Hua Qiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 47, is the Chief Executive Officer (Mainland China) of the Group. He joined the Group in 1998 and has over 26 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

Ms. Jin Bei Bei, aged 39, the Director of Hygiene Products Division, is responsible for the overall management and business development of sanitary napkins of the Group. She joined the Group in 2004 and has over 18 years of experience in products category, brand management and marketing. Ms. Jin graduated from Fujian Normal University with a bachelor's degree in economics.

Mr. Lin Yu Xian, aged 42, Director of Business Development Department, is responsible for regional sales and new retail business development. Mr. Lin joined the Group in 2001 and has over 21 years of experience in sales and marketing. He graduated in accounting computerization from the Department of Economics and Management at Liming Vocational University.

Mr. Lin Yi Su, aged 58, is the Production Director of the Hygiene Products Division and the Director of the Innovation Centre. He is responsible for the overall management of sanitary napkin production, and the management of the Group's material technology, equipment technology and product quality. He joined the Group in 2000 and has over 37 years of experience in production and technology. He graduated from Fuzhou University with a bachelor of engineering degree in chemical engineering and machinery, and has the title of senior engineer in the PRC.

Mr. Yang Cheng Long, aged 37, is the Director of the Human Resources Department. He is responsible for the human resources management of the Group. He joined the Group in 2008 and has over 17 years of experience in human resources. He graduated from Beijing Wuzi University with a bachelor of management degree in human resources management, and has the title of senior economist in the PRC.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Hengan International Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") recognise the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the board of directors (the "Board") is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

The Group has adopted a corporate governance statement of policy which provides guidance on the application of the corporate governance principles on the Group, with reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors of the Company (the "Director(s)"), the Company has complied with all code provisions as set out in the CG Code throughout the year ended 31 December 2021, and where appropriate, the applicable recommended best practices of the CG Code.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group, which includes leadership and control of the Company and oversees the Group's businesses, strategic decisions, internal control, risk management and performances. The management team is delegated with the authority and responsibility by the Board for the day-to-day management of the Group. The delegated functions and work tasks are periodically reviewed. Major corporate matters that are specifically delegated by the Board to the management include (1) the preparation of interim and annual reports and announcements for the Board's approval before publishing; (2) implementation of adequate internal controls and risk management procedures; and (3) compliance with relevant statutory and regulatory requirements and rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Directors with various professional qualifications, experience and related financial management expertise have contributed to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders. Hence, the Board believes that the current Board composition satisfy the balance of expertise, skills and experience to the corporate governance requirements of the Group as well as the ongoing development and management of its business activities.

The Board comprises fifteen directors, of which ten are executive Directors, namely Mr. Sze Man Bok (Chairman of the Board, "Chairman"), Hui Lin Chit (Vice-Chairman), Mr. Hung Ching Shan, Mr. Hui Ching Lau (Chief Executive Officer), Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim and Mr. Li Wai Leung (Chief Financial Officer and Company Secretary); and five are independent non-executive Directors, namely Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Ho Kai Ching, Mark, Mr. Zhou Fang Seng and Mr. Paul Marin Theil. The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Sze Man Bok, the Chairman of the Group, is responsible for the Group's overall corporate direction and business strategy. Mr. Hui Ching Lau, Chief Executive Officer of the Group, is responsible for strategic planning, human resources and the overall management of the Group. The biographies of the Directors are set out in "Profile of Directors and Senior Management" on pages 23 to 26 of this annual report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's interim and annual results. During the year, four regular Board meetings were held and the attendance of each Director at the Board meetings is set out in the section headed "Board and Committees Meetings" of this report.

CORPORATE GOVERNANCE REPORT

Regular Board meetings for each year are scheduled in advance to facilitate maximum attendance of Directors. All Directors are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Pursuant to the articles of association of the Company, all Directors appointed to fill a causal vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

Save for the family relationships disclosed in the Profile of Directors and Senior Management set out on pages 23 to 26 of this annual report, the Directors do not have material financial, business or other relationships with one another.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

After recommendation from the nomination committee, appointment of new director(s), if any, is vested with the Board. All non-executive directors (including independent non-executive directors) are appointed for a specific term of three years. According to the Articles of Association of the Company, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. In addition, any director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at the meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from all five Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules.

The Board, through the Nomination Committee, has reviewed the independence of all Independent Non- Executive Directors and concluded that all of them are independent within the definition of the Listing Rules. Furthermore, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any of the Independent Non-Executive Directors has been impaired up to the date of this report.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointing a new Director, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire relevant knowledge and skills. All Directors had provided to the Company records of training received during the year, including attended seminars, briefing or workshop and reading materials in respect of regulatory updates about the directors' duties, the Group's business and relevant industry, etc.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to talents, skills, experience, independence and knowledge. The Company will also take into consideration its own business model and specific needs from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

As at the date of this report, the Board comprises fifteen Directors, amongst them, five are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, professional experience, skills, gender and knowledge.

Having reviewed the board diversity policy and the Board's composition, the Nomination Committee considered that the requirements of the board diversity policy had been met and no measurable objective had been set to implement the board diversity policy.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed, upon specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021. To ensure Directors' dealings in the securities of the Company (the "Securities") are conducted in accordance with the Model Code and securities code of the Company, a Director is required to notify the chairman of the Board in writing and obtain a written acknowledgement from the Chairman prior to any dealings in the Securities.

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Board with specific written terms of reference. Details of the authority and responsibilities of the Remuneration Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange. The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

Mr. Hui Ching Lau *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) – Chairman of the Committee*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*
Mr. Ho Kwai Ching Mark *(Independent Non-executive Director)*
Mr. Zhou Fang Sheng *(Independent Non-executive Director)*
Mr. Theil Paul Marin *(Independent Non-executive Director)*

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the Non-executive Directors. In developing remuneration policies and making recommendations as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

CORPORATE GOVERNANCE REPORT

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. During the year ended 31 December 2021, one remuneration committee meeting was held. The attendance of each member of the Remuneration Committee is set out in the section headed "Board and Committees Meetings" of this report.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2021 are showed in Note 39 to the accounts.

During the year, the Remuneration Committee had performed the following:

- reviewed the Group's remuneration policy and made recommendations to the Board; and

- reviewed and approved the proposed 2021 overall remuneration of the Group.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process, internal controls and risk management matters of the Company. The Audit Committee comprises five Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Theil Paul Marin, Mr. Chan Henry, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. Details of the authority and responsibilities of the Audit Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange. The Audit Committee is required, amongst other things, to oversee the relationship with the external auditor, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the risk management and internal controls systems of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

During the year ended 31 December 2021, the Audit Committee held two meetings to review the interim and the annual results before their submission to the Board and monitored the integrity of such financial statements; and review the internal control and risk management systems with auditor. The attendance of each member of the Audit Committee is set out in the section headed "Board and Committees Meetings" of this report.

The Audit Committee has also discussed and reviewed the key audit matters determined by the external auditor under the new and revised auditor reporting standards under Hong Kong Standards on Auditing for the year ended 31 December 2021.

All issues raised by the external auditor and the Audit Committee have been addressed by the senior management. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the senior management and the Board were of sufficient significance for disclosure in the annual report.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

A Nomination Committee has been established by the Board with specific terms of reference. The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the reappointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters. Details of the authority and responsibilities of the Nomination Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange.

The Nomination Committee consists of a majority of Independent Non-executive Directors and its members are Mr. Sze Man Bok (Chairman of the Board), Mr. Hui Ching lau (Chief Executive Officer), and all Independent Non-executive Directors, namely Mr. Ho Kwai Ching Mark (Chairman of the Nomination Committee), Ms. Ada Ying Kay Wong, Mr. Chan Henry, Mr. Zhou Fang Sheng and Mr. Theil Paul Marin.

The Board had adopted a nomination policy, which included the selection criteria and nomination procedures, for nomination of new Directors. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Nomination Committee has also reviewed the structure, size and composition of the Board and concluded that members of the Board has possessed the expertise and independence to carry out the Board's functions and responsibilities during the year ended 31 December 2021.

On 18 August 2021, Mr. Hui Lin Chit resigned as the Chief Executive Officer, the Authorised Representative, a member of each of Remuneration Committee and Nomination Committee. At the same time, Mr. Hui Ching Lau was appointed as the Chief Executive Officer and the said committees member and Authorised Representative.

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Li Wai Leung, Mr. Theil Paul Marin will retire office at the Company's annual general meeting to be held on 20 May 2022 ("AGM"), and being eligible, will offer themselves for re-election. Mr. Zhou Fang Sheng will also retire from the office at the AGM but will not offer himself for re-election.

Mr. Zhou Fang Sheng confirms that, in relation to his proposed retirement, he has no disagreement with the Board and there are no other matters that need to be brought to the attention of the Shareholders and/or the Stock Exchange. Therefore, the Board nominates Mr. Chen Chuang as the candidate for election as the new independent non-executive Director at the AGM. Mr. Chen Chuang, being eligible for election as independent non-executive Director of the Company at the AGM, has given confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board and the Nomination Committee of the Company determined that Mr. Chen Chuang meets the criteria of independence expected of an independent non-executive Director under Rule 3.13 of the Listing Rules and have the character, integrity, independence and experience required to fulfil and discharge the role and duties of an independent non-executive Director in the event that he is elected at the AGM.

BOARD AND COMMITTEES MEETINGS

The individual attendance records of each Director attendance at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and annual general meeting in 2021 are set out below:

	Attendance/Number of Meetings Held				
Directors	Full Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A	2/2	1/1
Mr. Hui Lin Chit *(Deputy-chairman)*	4/4	N/A	N/A#	1/2#	1/1
Mr. Hung Ching Shan	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Lau *(Chief Executive Officer)*	4/4	N/A	1/1#	1/2#	1/1
Mr. Xu Shui Shen	4/4	N/A	N/A	N/A	1/1
Mr. Xu Da Zuo	4/4	N/A	N/A	N/A	1/1
Mr. Xu Chun Man	4/4	N/A	N/A	N/A	1/1
Mr. Sze Wong Kim	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Chi	4/4	N/A	N/A	N/A	1/1
Mr. Li Wai Leung	4/4	2/2*	1/1*	2/2*	1/1
Independent Non-executive Directors					
Mr. Chan, Henry	4/4	2/2	1/1	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	2/2	1/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	2/2	1/1
Mr. Zhou Fang Sheng	4/4	2/2	1/1	2/2	1/1
Mr. Theil Paul Marin	4/4	2/2	1/1	2/2	1/1

The Company's external auditor also attended the annual general meeting.

On 18 August 2021, Mr. Hui Lin Chit resigned as a member of each of the Remuneration Committee and Nomination Committee, and Mr. Hui Ching Lau was appointed as a member of the said committees.

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately RMB6,000,000 and RMB6,126,000 (RMB4,189,000 is capitalised) by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2021. Non-auditing services mainly included services provided for tax advisory services, preliminary announcements of results provided, prepare for "Environmental, Social and Governance Report", "One Data Platform Project Governance and Data Analytics Services" and "Data Analytics Led Media Advertising Advisory Project" etc. during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2021 which gives a true and fair view of the state of affairs of the Group as at 31 December 2021, and of the results and cash flows for year then ended. In preparing the financial statements for the year ended 31 December 2021, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

CORPORATE GOVERNANCE REPORT

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The interim and annual results of the Company are announced in a timely manner within the limit of two months and three months, respectively, after the end of the relevant periods in accordance with the Listing Rules.

The Directors have acknowledged their responsibility for preparing all information and representation contained in the financial statements of the Company for the year ended 31 December 2021. The statement of reporting responsibilities of auditor is set out in the independent auditor's report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the design and implementation of the systems of internal controls which covers financial reporting, operations, compliance and risk management of the Company, as well as continuous monitoring the effectiveness of such systems. The Board has delegated such responsibility to the management of the Company. The management, under the supervision of the Board, has established an on-going process for identifying, evaluating and managing significant risks faced by the Group.

The Audit Committee reviews the risk management and internal control systems that are significant to the Group on an on-going basis. The Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, as well as their training programmes and budgets.

The Group has an independent and objective internal audit department which reviews and monitors all critical aspects of the Group's authorities and its internal controls. Internal audit reports are presented to the Board and the Audit Committee on a quarterly basis. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff are competent to carry out their roles and responsibilities.

During the year, the Company's internal audit department reviewed the Company's internal control procedures and made recommendations to the Board on improvements that can be made to the existing internal control procedures. Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2021 and considered that the Group's internal control systems effective and adequate and is of the view that the system of internal control and accounting adopted for the year ended 31 December 2021 is sound and effective to safeguard the interests of the shareholders' investments and the Group's assets.

The Board is satisfied that the risk management and internal control systems in place covering all material controls including financial, operational and compliance controls for the year under review and up to the date of issuance of the annual report is reasonably effective and adequate.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented – principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group – regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified; and

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control – review of the annual internal audit report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal control, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends pursuant to code provision of the CG Code, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to Shareholders. The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Articles of Association of the Company and all applicable laws and regulations and the factors set out below.

The Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

The Board will consider to maintain 60% dividend payout ratio to declare and distribute dividends to the shareholders of the Company.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

COMPANY SECRETARY

Mr. Li Wai Leung has been the Company Secretary of the Company since January 2017. He is a full time employee of the Company and has adequate working knowledge on the Company to discharge his duty as the Company Secretary. Mr. Li reports to the Chairman of the Company and is responsible for advising the Board on corporate governance matters. For the year under review, Mr. Li has confirmed that he has taken no less than 15 hours of relevant professional training.

INVESTOR RELATIONS

(i) Communication with Shareholders

The Company establishes different communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) latest and key information of the Group are available on the website of the Company, (iv) regular press conferences and briefing meetings with investors, shareholders and analysts are set up from time to time on updated information of the Group, and (v) the Company's Registrars serve the shareholders respecting all share registration matters.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as follows:

By post: Hengan International Group Company Limited
Unit 2101D, 21/F., Admiralty Centre,
Tower I, 18 Harcourt Road, Hong Kong
By fax: (852) 2799 7372

Shareholders' questions about their shareholdings should be directed to Tricor Abacus Limited, the Company's branch share registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the Article 72 of Articles of Association of the Company, the Board shall, on the requisition of the members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the company of the Company, forthwith proceed duly to convene an EGM of the Company.

The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the Company's principal place of business in Hong Kong, and may consist of several documents in like form, each signed by one or more requisitionists.

If the Board do not within 21 days from the date of the deposit of the requisition proceed duly to convene the meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date. A meeting convened under this Article by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene a meeting shall be repaid to the requisitionists by the Company.

(iii) Procedures for Putting Forward Proposals at a General Meeting

Shareholders are welcomed to suggest proposals to be discussed at shareholders' meeting. Proposal shall be sent to the Company Secretary of the Company by written requisition. Pursuant to the articles of association of the Company, Shareholders who wish to put forward a Proposal should convene an extraordinary general meeting by following the procedures set out in "Procedures for Shareholders to Convene an Extraordinary General Meeting".

(iv) Procedures for Proposing a Person for Election as a Director

As regards the Procedure for proposing a person for election as a Director, please refer to the Procedures made available under the "Corporate Governance" section of the Company's website at www.hengan.com.

CONSTITUTIONAL DOCUMENTS

An updated version of the Company's Memorandum of Association and Articles of Association are available on both the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of personal hygiene products, mainly in the PRC.

(1) An analysis of the Group's revenue and contribution to operating profit by business segments is as follows:

	2021		2020	
	Revenue RMB'000	Contribution to operating profit RMB'000	Revenue RMB'000	Contribution to operating profit RMB'000
Personal hygiene products				
– Sanitary napkin products	**6,116,530**	**2,712,686**	6,654,711	3,215,281
– Disposable diaper products	**1,219,445**	**77,951**	1,425,567	119,363
– Tissue paper products	**9,842,429**	**422,558**	10,382,758	1,040,685
Others	**3,611,740**	**43,245**	3,910,965	266,831
	20,790,144	**3,256,440**	22,374,001	4,642,160

(2) The geographical analysis of the Group's revenue is shown as follows:

	2021		2020	
	Revenue RMB'million	Percentage of total revenue (%)	Revenue RMB'million	Percentage of total revenue (%)
PRC				
Fujian and Jiangxi	**7,018**	**33.8**	6,774	30.3
North-western	**750**	**3.6**	852	3.8
South-western	**1,617**	**7.8**	1,787	8.0
Guangdong, Guangxi, Hunan and Hubei	**2,860**	**13.8**	3,311	14.8
North-eastern	**668**	**3.2**	690	3.1
Northern	**1,023**	**4.9**	1,050	4.7
Shandong and Henan	**1,596**	**7.7**	1,722	7.7
Eastern	**2,825**	**13.6**	3,182	14.2
Hong Kong and Macau	**1,919**	**9.2**	2,263	10.1
Overseas	**514**	**2.4**	743	3.3
	20,790	**100**	22,374	100

REPORT OF THE DIRECTORS

RESULTS AND DIVIDEND

The results of the Group for the year are set out in the consolidated statement of profit or loss on pages 53 to 54.

The Board has adopted a dividend policy. Subject to the Articles of Associations of the Company and all applicable laws and regulations, the Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

The Directors declared an interim dividend of RMB1.00 (2020: RMB1.20) per ordinary share, totalling RMB1,175,121,000 (2020: RMB1,427,625,000), which was paid on 6 October 2021.

The Directors recommend the payment of/paid a final dividend of RMB0.70 (2020: RMB1.30) per ordinary share, totalling RMB813,485,000 (2020: RMB1,530,799,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 20 May 2022.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.860152 per share using the exchange rate of HK$ to RMB on 21 March 2022,which is 0.81381.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 57.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB21,089,000 (2020: RMB23,758,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2021, the reserves of the Company available for distribution to shareholders amounted to RMB7,581,252,000 (2020: RMB8,168,828,000), subject to the restrictions stated in Note 27 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 4 and 5 respectively.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2021, the Company repurchased a total of 24,216,500 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$1,121,807,289 (equivalent to RMB936,731,766) (excluding expenses) for enhancing its per share net asset value and earnings. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK$	Lowest price paid HK$
23 March 2021	600,000	51.55	50.90
24 March 2021	800,000	52.15	51.15
25 March 2021	400,000	52.25	51.20
26 March 2021	700,000	52.65	51.55
29 March 2021	400,000	53.15	52.10
30 March 2021	400,000	53.10	52.05
1 April 2021	400,000	51.05	50.80
7 April 2021	700,000	51.20	50.10
8 April 2021	400,000	51.00	50.25
9 April 2021	400,000	51.15	50.15
12 April 2021	400,000	51.15	50.45
13 April 2021	400,000	51.35	50.45
14 April 2021	400,000	51.55	50.70
15 April 2021	400,000	51.65	51.25
16 April 2021	400,000	51.85	51.35
19 April 2021	400,000	51.80	51.35
20 April 2021	400,000	51.90	51.45
21 April 2021	400,000	51.60	51.25
22 April 2021	400,000	51.65	51.40
15 July 2021	916,500	50.00	48.95
16 July 2021	1,500,000	50.00	48.65
23 August 2021	900,000	42.75	41.35
24 August 2021	500,000	43.20	42.40
25 August 2021	500,000	44.65	43.05
26 August 2021	500,000	43.95	42.60
27 August 2021	500,000	44.00	43.00
30 August 2021	500,000	44.25	43.00
31 August 2021	500,000	45.35	44.00
7 September 2021	400,000	43.60	43.05
8 September 2021	700,000	43.55	42.70
9 September 2021	400,000	44.05	42.90
10 September 2021	400,000	42.65	42.05
13 September 2021	400,000	42.00	41.10
14 September 2021	400,000	42.25	41.45
15 September 2021	400,000	42.45	41.35
16 September 2021	400,000	42.20	41.45
17 September 2021	400,000	41.60	40.70
20 September 2021	400,000	41.40	40.15
21 September 2021	400,000	41.25	40.10
23 September 2021	400,000	41.15	40.55
24 September 2021	400,000	41.80	40.85
27 September 2021	400,000	42.15	41.25
28 September 2021	400,000	41.95	41.55
29 September 2021	400,000	42.20	41.10

REPORT OF THE DIRECTORS

Date of repurchase	Number of shares repurchased	Highest price paid HK$	Lowest price paid HK$
30 September 2021	400,000	42.00	41.40
4 October 2021	400,000	41.45	40.60
5 October 2021	400,000	41.85	40.90
6 October 2021	400,000	41.75	40.80
7 October 2021	400,000	42.60	42.05
8 October 2021	400,000	43.45	42.60
	24,216,500		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2021.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors
Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Hung Ching Shan
Mr. Hui Ching Lau
Mr. Xu Shui Shen
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Sze Wong Kim
Mr. Hui Ching Chi
Mr. Li Wai Leung

Independent Non-Executive Directors
Mr. Chan Henry
Ms. Ada Ying Kay Wong
Mr. Ho Kwai Ching Mark
Mr. Zhou Fang Sheng
Mr. Theil Paul Marin

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Li Wai Leung, Mr. Theil Paul Marin will retire office at the AGM, and being eligible, will offer themselves for re-election. Mr. Zhou Fang Sheng will also retire from office at the AGM but will not offer himself for re-election.

Mr. Zhou Fang Sheng confirms that, in relation to his proposed retirement, he has no disagreement with the Board and there are no other matters that need to be brought to the attention of the Shareholders and/or the Stock Exchange. Therefore, the Board nominates Mr. Chen Chuang as the candidate for election as the new independent non-executive Director at the AGM. Mr. Chen Chuang, being eligible for election as independent non-executive Director of the Company at the AGM, has given confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board and the Nomination Committee of the Company determined that Mr. Chen Chuang meets the criteria of independence expected of an independent non-executive Director under Rule 3.13 of the Listing Rules and have the character, integrity, independence and experience required to fulfil and discharge the role and duties of an independent non-executive Director in the event that he is elected at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each Executive Director has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2023. Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2024, while Mr. Theil Paul Marin shall expiry on 16 May 2022.

REPORT OF THE DIRECTORS

BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 23 to 26.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on note 39. The emoluments payable to eight senior management (2020: nine senior management) during the year fell within the following bands:

	Number of individuals	
	2021	2020
Emolument bands		
Below HK$500,000 (equivalent to below RMB414,650)	**0**	2
HK$500,001 to HK$1,000,000 (equivalent to RMB414,651 to RMB829,300)	**6**	6
HK$1,000,001 to HK$1,500,000 (equivalent to RMB829,301 to RMB1,243,950)	**1**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,243,951 to RMB1,658,600)	**1**	0

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 179 of the Company's Articles of Association, every director or other officer of the Company shall be indemnified out of the assets of the Company against all liabilities (to the extent permitted by the Hong Kong Companies Ordinance) sustained or incurred by such director or officer in or about the execution of his office or otherwise in relation thereto. In addition, the Company has purchased directors and officers' liabilities insurance on behalf of its directors and officers.

DIRECTOR'S INTERESTS IN THE SHARES AND SHARE OPTIONS IN THE COMPANY OR ANY ASSOCIATED CORPORATION

As at the date of this report, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))		
Name of Directors	Personal interests/ Beneficiary	Family Interest	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok (Note (2))	238,990,399	–	120,000	239,110,399	20.58%
Mr. Hui Lin Chit (Note (3))	268,892,733	–	448,000	269,340,733	23.18%
Mr. Hung Ching Shan (Note (4))	7,150,000	–	100,000	7,250,000	0.62%
Mr. Hui Ching Lau	–	–	9,000,000	9,000,000	0.77%
Mr. Xu Shui Shen	–	33,030	610,000	643,030	0.06%
Mr. Xu Da Zuo (Note (5))	17,710,000	–	408,000	18,118,000	1.56%
Mr. Xu Chun Man (Note (6))	9,040,000	–	120,000	9,160,000	0.79%
Mr. Sze Wong Kim	851,700	–	100,000	951,700	0.08%
Mr. Hui Ching Chi	40,000	–	400,000	440,000	0.04%
Mr. Li Wai Leung	–	–	300,000	300,000	0.03%

REPORT OF THE DIRECTORS

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company, share options were granted to each of executive directors of the Company on 18 January 2022, and details of which are set out on pages 43 to 46.

(2) Out of the 238,990,399 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 238,414,799 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 268,892,733 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) Out of the 7,150,000 ordinary shares, Wan Li Company Limited ("Wan Li") held 7,100,000 shares in the Company while Mr. Hung had personal interests in 50,000 ordinary shares in the Company. Wan Li is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(5) Skyful Holdings Limited held 17,710,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company.

(6) Out of the 9,040,000 ordinary shares, Zhong Shen Holdings Limited ("Zhong Shen") holds 9,000,000 shares in the Company while Mr. Xu had personal interests in 40,000 ordinary shares in the Company. Zhong Shen is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company.

(7) Interests in shares and share options were long position.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTION SCHEMES

(1) The share option scheme adopted 26 May 2011 had expired. Thereafter, The Company has adopted a new share option scheme (the "Scheme") on 17 May 2021 which is valid and effective for a period of 10 years commencing on the date of adoption of the Scheme. The terms of the Scheme are summarised as follows:

(i) Purpose of the Scheme

The purpose of the Scheme is to encourage participants to contribute to our Group through giving them certain equity interest of our Company and to enhance the value of our Company and our Shares, for the ultimate benefit of our Company and our Shareholders as a whole.

(ii) Eligible Persons

Participants of the Scheme comprise of directors (including executive Director(s), non-executive Directors and independent non-executive Directors) any full-time or part-time employees of the Group. as determined by the Board from time to time. The Directors may, at their discretion, invite participants to participate in the Scheme. In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

REPORT OF THE DIRECTORS

(iii) Maximum Number of Shares Available for Issue

The maximum number of shares available for issue after considering the options already granted under the Scheme as at the date of the annual report are 73,006,742, representing 6.28% of total issued shares of the Company as at the date of this annual report, which are not more than 10% of the issued share capital of the Company (i.e. 117,753,742 shares) as at the date of the approval of the Scheme.

(iv) Maximum Entitlement of Each Participant

The total number of Shares issued and to be issued upon the exercise of the Options granted to each Participant pursuant to the Scheme and any other share option scheme(s) of our Company in any 12-month period shall not exceed 1% of our Shares in issue. Where further Options are granted to a Participant, and all such shares issued and to be issued upon the exercise of the Participant's granted and to-be granted Options (including exercised, cancelled and outstanding Options) represent in aggregate over 1% of the Shares in issue in the 12-month period up to and including the date of such further grant, such Offer must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. Our Company must send a circular to our Shareholders containing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant), information required under the Listing Rules.

Where any proposed grant of Options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of our Shares then in issue; and

(b) having an aggregate value, based on the closing price of our Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK$5 million,

such further grant of Options shall be subject to prior approval by resolution of our Shareholders (voting by way of poll). Grantee, his associates and all core connected persons of the Company shall abstain from voting in favour of the resolution, but they may vote against the resolution at such general meeting of our Shareholders (provided that they have indicated such preference in their letters to the Shareholders.

(v) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

(vi) Acceptance of Offer

An offer for the grant of options must be accepted not less than 30 business days after the offer date and must be accompanied by payment of HK$1.00.

(vii) Subscription Prices

The Subscription Price shall be determined by our Board in its absolute discretion but in any event shall be at least the highest of:

(a) the closing price of each of our Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;

REPORT OF THE DIRECTORS

(b) the average closing price of each of our Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five (5) Business Days immediately preceding the Date of Grant; and

(c) the nominal value of each of our Shares.

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 17 May 2031.

(2) Details of movements in the share options as at date of this report (22 March 2022) which have been granted under the Scheme are as follows:

Eligible person	Number of share options: Balance as at 01/01/2021	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 22/03/2022	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hui Lin Chit	74,000	–	–	–	–	74,000	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2017–27/07/2022
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hung Ching Shan	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hui Ching Lau	–	2,700,000	–	–	–	2,700,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	2,700,000	–	–	–	2,700,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	3,600,000	–	–	–	3,600,000	41.48	18/01/2022	18/01/2025–17/01/2026

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Eligible person	Number of share options: Balance as at 01/01/2021	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 22/03/2022	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Mr. Xu Shui Shen	30,000	–	–	–	–	30,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
	–	150,000	–	–	–	150,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	150,000	–	–	–	150,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	200,000	–	–	–	200,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Sze Wong Kim	10,000	–	–	–	(10,000)	–	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	(5,000)	–	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	(5,000)	–	68.30	28/07/2011	28/07/2016–27/07/2021
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026

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Eligible person	Balance as at 01/01/2021	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 22/03/2022	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Number of share options								
Mr. Hui Ching Chi	10,000	–	–	–	(10,000)	–	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	(5,000)	–	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	(5,000)	–	68.30	28/07/2011	28/07/2016–27/07/2021
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	160,000	–	–	–	160,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Li Wai Leung	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Participants	876,500	–	–	–	(876,500)	–	68.30	28/07/2011	28/07/2014–27/07/2021
	461,750	–	–	–	(461,750)	–	68.30	28/07/2011	28/07/2015–27/07/2021
	460,750	–	–	–	(460,750)	–	68.30	28/07/2011	28/07/2016–27/07/2021
	3,739,000	–	–	–	(1,196,500)	2,542,500	72.75	27/07/2012	28/07/2015–27/07/2022
	1,991,500	–	–	–	(649,750)	1,341,750	72.75	27/07/2012	28/07/2016–27/07/2022
	2,011,304	–	–	–	(661,750)	1,349,554	72.75	27/07/2012	28/07/2017–27/07/2022
	2,666,500	–	–	–	–	2,666,500	79.20	05/10/2015	05/10/2018–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2019–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2020–05/10/2025
	–	10,064,100	–	–	–	10,064,100	41.48	18/01/2022	18/01/2023–17/01/2024
	–	10,064,100	–	–	–	10,064,100	41.48	18/01/2022	18/01/2024–17/01/2025
	–	13,418,800	–	–	–	13,418,800	41.48	18/01/2022	18/01/2025–17/01/2026
	15,319,804	44,747,000	–	–	(4,347,000)	55,719,804			

REPORT OF THE DIRECTORS

The Company has used the Binomial Model for assessing the fair value of the share options granted. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

	Options granted in 2011 to Directors	Options granted in 2011 to employees	Options granted in 2012 to Directors	Options granted in 2012 to employees	Options granted in 2015 to employees	Options granted in 2022 to Directors	Options granted in 2022 to employees
Risk free rate	2.3% per annum	2.3% per annum	0.8% per annum	0.8% per annum	1.5% per annum	0.7% per annum	0.7% per annum
Expected volatility	33.3% per annum	33.3% per annum	32.5% per annum	32.5% per annum	34.5% per annum	24.0% per annum	24.0% per annum
Expected dividend yield	2.0% per annum	2.0% per annum	1.8% per annum	1.8% per annum	2.041% per annum	5.0% per annum	5.0% per annum
Trigger price multiple	2.2 times	1.6 times	2.2 times	1.6 times	2.51 times	2.75 times	2.20 times
Expected turnover rate	5.8% per annum	14.7% per annum	4.8% per annum	27.1% per annum	16.70% per annum	2.0% per annum	28.0% per annum

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2021, amounted to RMB Nil (2020: RMB4,641,000) and the remaining unamortised fair value of RMB122,277,000 for options granted in 2022 (2020: RMB Nil) will be charged to the consolidated statement of profit or loss in the future years.

It should be noted that the value of an option varies with different variables of certain subjective assumptions; any change in variables so adopted may materially affect the fair value estimate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2021, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	*Note*	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	*(1)*	Beneficial owner	238,414,799 (L)	20.52%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	238,414,799 (L)	20.52%
An Ping Holdings Limited	*(2)*	Beneficial owner	268,892,733 (L)	23.14%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	268,892,733 (L)	23.14%
Credit Suisse Trust Limited	*(3)*	Trustee	552,820,002 (L)	47.57%
Artisan Partners Holdings LP		Interests of corporation controlled	69,811,500 (L)	6.01%
Artisan Partners Limited Partnership		Investment Manager	69,811,500 (L)	6.01%
Artisan Partners Asset Management Inc.		Interests of corporation controlled	69,811,500 (L)	6.01%

(L) denotes long position

REPORT OF THE DIRECTORS

Notes:

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Sze's Family Trust.

(2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Hui Family Trust.

(3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others and is deemed to be interested in the shares held by these trusts.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases of goods and services for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	11.5%
– five largest suppliers combined	31.8%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 22 March 2022.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Sze Man Bok
Chairman

Hong Kong, 22 March 2022

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Hengan International Group Company Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 53 to 130, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter identified in our audit is summarised as follows:

- Revenue recognition – sales of goods

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to notes 2 (21) (Summary of significant accounting policies) and 5 (Revenue and segment information) to the Group's consolidated financial statements. Revenue from sales of goods amounted to RMB20,790 million for the year ended 31 December 2021. Revenue is recognised net of estimated volume discount and other customer incentives when the Group satisfies a performance obligation by transferring the control of promised good or service to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that good or service. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors, in many different locations.	We understood, evaluated and validated, on a sample basis, management's key controls in respect of the Group's activities in relation to contract with customers including identification of key contract terms and obligation for goods delivery, acceptance, volume discount and customer incentives; recording sales transactions from customer orders' approval, goods delivery, sales recording, obtaining customer's goods receipt notes, cash receipts, through to subsequent settlements of trade receivables. In addition, we tested the general IT control environment of the Group's systems and the specific automated controls associated with revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the general ledger accounting system. We inspected agreements with major customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, applicable rebate and discount arrangements and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards. We conducted testing of revenue recorded covering different locations and customers by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes. In addition, we confirmed selected trade receivables balances as at the balance sheet date. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	5	**20,790,144**	22,374,001
Cost of goods sold	7	**(13,017,826)**	(12,918,146)
Gross profit		**7,772,318**	9,455,855
Selling and distribution costs	7	**(3,153,718)**	(3,468,931)
Administrative expenses	7	**(1,372,575)**	(1,363,991)
Net impairment losses on financial assets	7	**(9,425)**	(4,163)
Other income and other gains – net	6	**1,306,991**	1,773,618
Operating profit		**4,543,591**	6,392,388
Finance income	8	**294,662**	291,811
Finance costs	8	**(465,565)**	(718,295)
Finance costs – net		**(170,903)**	(426,484)
Share of net losses of associates		**(43,122)**	(4,482)
Profit before income tax		**4,329,566**	5,961,422
Income tax expense	9	**(1,039,362)**	(1,352,980)
Profit for the year		**3,290,204**	4,608,442
Profit attributable to:			
Shareholders of the Company		**3,273,601**	4,594,815
Non-controlling interests		**16,603**	13,627
		3,290,204	4,608,442
Earnings per share for profit attributable to shareholders of the Company			
– Basic	10	**RMB2.786**	RMB3.864
– Diluted	10	**RMB2.786**	RMB3.864

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Profit for the year	**3,290,204**	4,608,442
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**(14,428)**	(19,460)
Total comprehensive income for the year	**3,275,776**	4,588,982
Attributable to:		
Shareholders of the Company	**3,268,302**	4,592,157
Non-controlling interests	**7,474**	(3,175)
Total comprehensive income for the year	**3,275,776**	4,588,982

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

		As at 31 December	
	Note	2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**7,296,727**	7,571,430
Right-of-use assets	14	**979,055**	970,171
Construction-in-progress	16	**509,647**	489,052
Investment properties	15	**216,293**	213,609
Intangible assets	17	**724,778**	755,444
Prepayments for non-current assets	18	**468,652**	327,989
Deferred income tax assets	30	**544,762**	435,853
Investments in associates	35	**53,330**	97,188
Financial assets at fair value through profit or loss	24	**194,342**	156,593
Long-term bank time deposits	23	**4,035,960**	3,482,147
		15,023,546	14,499,476
Current assets			
Inventories	20	**4,162,477**	4,310,918
Trade and bills receivables	21	**2,970,182**	3,375,149
Other receivables, prepayments and deposits	21	**1,881,213**	1,616,952
Current income tax recoverable		**7,427**	48,995
Derivative financial instruments	22	**913**	–
Restricted bank deposits		**303**	4,812
Financial assets at fair value through profit or loss	24	**–**	100,884
Cash and bank balances	23	**18,246,687**	20,483,739
		27,269,202	29,941,449
Total assets		**42,292,748**	44,440,925
Equity			
Equity attributable to shareholders of the Company			
Share capital	25	**123,345**	125,366
Other reserves	27	**2,862,648**	3,133,402
Retained earnings	28	**16,051,047**	16,152,622
		19,037,040	19,411,390
Non-controlling interests		**243,410**	250,084
Total equity		**19,280,450**	19,661,474

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Note	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*29*	**739,342**	2,492,618
Lease liabilities	*14*	**10,843**	8,665
Deferred income tax liabilities	*30*	**224,633**	216,222
		974,818	2,717,505
Current liabilities			
Trade and bills payables	*31*	**2,565,486**	2,244,205
Other payables and accrued charges	*31*	**1,455,267**	1,310,282
Contract liabilities	*5*	**225,627**	134,847
Derivative financial instruments	*22*	**5,028**	15,643
Lease liabilities	*14*	**17,607**	11,110
Current income tax liabilities		**280,712**	2,177
Borrowings	*29*	**17,487,753**	18,343,682
		22,037,480	22,061,946
Total liabilities		**23,012,298**	24,779,451
Total equity and liabilities		**42,292,748**	44,440,925

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 53 to 130 were approved by the Board of Directors on 22 March 2022 and were signed on its behalf.

Director	*Director*
Sze Man Bok	Hui Ching Lau

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Note	Attributable to shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2021		125,366	3,133,402	16,152,622	19,411,390	250,084	19,661,474
Profit for the year		–	–	3,273,601	3,273,601	16,603	3,290,204
Currency translation differences	*27(c)*	–	(5,299)	–	(5,299)	(9,129)	(14,428)
Total comprehensive income		–	(5,299)	3,273,601	3,268,302	7,474	3,275,776
Transactions with owners:							
2020 final dividends paid	*11*	–	–	(1,530,799)	(1,530,799)	(1,150)	(1,531,949)
2021 interim dividends paid	*11*	–	–	(1,175,121)	(1,175,121)	(12,401)	(1,187,522)
Buy-back of shares	*25, 27*	–	(936,732)	–	(936,732)	–	(936,732)
Cancellation of shares	*25, 27, 28*	(2,021)	563,170	(561,149)	–	–	–
Capital reduction of a subsidiary		–	–	–	–	(2,097)	(2,097)
Capital contribution by non-controlling interests		–	–	–	–	1,500	1,500
Total of transactions with owners		(2,021)	(373,562)	(3,267,069)	(3,642,652)	(14,148)	(3,656,800)
Appropriation to statutory reserves	*27, 28*	–	108,107	(108,107)	–	–	–
Balance at 31 December 2021		123,345	2,862,648	16,051,047	19,037,040	243,410	19,280,450

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

		Attributable to shareholders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2020		125,654	3,203,594	14,543,693	17,872,941	278,937	18,151,878
Profit for the year		–	–	4,594,815	4,594,815	13,627	4,608,442
Currency translation differences	*27(c)*	–	(2,658)	–	(2,658)	(16,802)	(19,460)
Total comprehensive income		–	(2,658)	4,594,815	4,592,157	(3,175)	4,588,982
Transactions with owners:							
2019 final dividends paid	*11*	–	–	(1,487,109)	(1,487,109)	(2,449)	(1,489,558)
2020 interim dividends paid	*11*	–	–	(1,427,625)	(1,427,625)	(10,236)	(1,437,861)
Share-based compensation							
– value of employee services	*26,27*	–	4,641	–	4,641	–	4,641
– proceeds from shares issued	*25,27*	1	606	–	607	–	607
Change in ownership interests in subsidiaries without change of control		–	10,187	–	10,187	(26,655)	(16,468)
Buy-back of shares	*25,27*	–	(154,409)	–	(154,409)	–	(154,409)
Cancellation of shares	*25,27,28*	(289)	289	–	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	13,662	13,662
Total of transactions with owners		(288)	(138,686)	(2,914,734)	(3,053,708)	(25,678)	(3,079,386)
Appropriation to statutory reserves	*27,28*	–	71,152	(71,152)	–	–	–
Balance at 31 December 2020		125,366	3,133,402	16,152,622	19,411,390	250,084	19,661,474

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**5,434,784**	6,523,380
Income tax paid		**(831,178)**	(1,481,714)
Net cash generated from operating activities		**4,603,606**	5,041,666
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, and land use rights, including additions of construction-in-progress		**(781,334)**	(760,696)
Proceeds from disposal of property, plant and equipment and intangible assets	*32(b)*	**5,093**	4,844
Decrease in long-term and short-term bank time deposits, net		**2,415,996**	1,491,349
Proceeds from disposal of financial assets at fair value through profit or loss		**102,447**	–
Interest received		**933,862**	1,078,152
Payments for financial assets at fair value through profit or loss	*24*	**–**	(257,477)
Net cash generated from investing activities		**2,676,064**	1,556,172
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		**1,500**	10,505
Payment to non-controlling interests for capital reduction of a subsidiary		**(2,097)**	–
Proceeds from borrowings	*32(c)*	**19,960,481**	23,288,300
Repayment of borrowings	*32(c)*	**(22,305,005)**	(23,337,842)
Lease payments for right-of-use assets excluding land use rights	*32(c)*	**(19,862)**	(13,433)
Decrease in restricted bank deposits		**4,509**	2,397
Transactions with non-controlling interests		**–**	(16,468)
Payments for shares buy-back		**(936,732)**	(154,409)
Interest paid	*32(c)*	**(469,653)**	(788,041)
Dividends paid	*11*	**(2,705,920)**	(2,914,734)
Dividends paid to non-controlling interests		**(13,734)**	(6,253)
Proceeds from issues of shares under the employee share option scheme		**–**	607
Net cash used in financing activities		**(6,486,513)**	(3,929,371)
Increase in cash and cash equivalents		**793,157**	2,668,467
Cash and cash equivalents at 1 January	*23*	**11,607,059**	9,120,176
Effect of foreign exchange rate changes		**(60,400)**	(181,584)
Cash and cash equivalents at 31 December	*23*	**12,339,816**	11,607,059

The notes on pages 60 to 130 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 GENERAL INFORMATION

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing, distribution and sale of personal hygiene products in the People's Republic of China (the "PRC") and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") since December 1998.

These consolidated financial statements were presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 22 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss("FVPL") (including derivative instruments and unlisted equity security), which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group assessed the adoption of these new and amended standards and concluded that they did not have a significant impact on the Group's results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 April 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2021 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income ("OCI") of the investee in OCI. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of net losses of associates' in consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries *(continued)*

(iii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(7)(i)). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries *(continued)*

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(3) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executives Directors who make strategic decisions.

(4) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is HK$ and the functional currency of the majority of the Group's companies is RMB. The consolidated financial statements are presented in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(4) Foreign currency translation *(continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within "finance income" and "finance costs", where applicable. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other income and other gains – net".

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions),

(3) all resulting currency translation differences are recognised in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(5) Property, plant and equipment and construction-in-progress

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress ("CIP") represents buildings, machineries and software under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Property, plant and equipment and construction-in-progress *(continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Machinery	10–20 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(8)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income and other gains – net" in the consolidated statement of profit or loss.

(6) Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of investment properties is derecognised upon disposal or when no future economic benefits is expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of not exceeding 20 years.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of not exceeding 10 years.

(iv) Computer software

Computer software represent purchased software and are amortised over their estimated useful lives, which do not exceed 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Impairment of investments in non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(9) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial assets *(continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments as financial assets measured at amortised cost, financial assets measured subsequently at fair value through OCI, and financial assets measured subsequently at fair value through profit or loss.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

Financial assets measured at FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See Note 3(a)(ii) for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. There are no derivatives designated as a hedging instrument for the Group.

Derivatives of the Group are categorised as financial assets/liabilities at fair value through profit or loss and the changes in fair value are recognised in the consolidated statement of profit or loss under "other income and other gains – net" in the year in which they arise.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to completion and the estimated costs necessary to make the sale.

(12) Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade, bills and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2(9) for further information about the Group's accounting for trade, bills and other receivables and Note 2(9)(iv) and 3(a)(ii) for a description of the Group's impairment policies.

(13) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(14) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(15) Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(16) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs), and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(17) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(ii) Deferred income tax

(a) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Employee benefits

(i) Retirement benefits

The Group's companies in Mainland China participate in defined contribution retirement schemes administered by local governments in different locations of the PRC (the "Central Schemes"). The Group's companies and the employees in Mainland China are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes.

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,500, equivalent to RMB1,244 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

(ii) Share-based compensation

The Group operates an equity-settled share-based payment plan (Note 26). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(21) Revenue recognition

The Group manufactures and sells a range of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The personal hygiene products are often sold with retrospective volume discounts and other customer incentives based on aggregate sales over a period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in other payables and accrued charges) is recognised for expected discounts payable to customers in relation to sales. No element of financing is deemed present as the sales are made with a credit term of 30–90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

For certain payments to customers for promotion activities, the Group did not provide a distinct good or service to customers and therefore recorded as a deduction of sales price.

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(22) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury share.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(23) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. See Note 8 below for details.

(24) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(25) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group leases various offices, warehouses and vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, and leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) Leases *(continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received

Depreciation of right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded at cost as right-of-use assets, which are depreciated over the lease periods using the straight-line method.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of office furniture.

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the year ended 31 December 2021.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(26) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

(27) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's Directors or shareholders, when appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Company's functional currency is HK$ and the majority of its subsidiaries' functional currencies are RMB. Foreign exchange risk arises from future commercial transactions or purchases from overseas by the Company's subsidiaries and recognised assets or liabilities, such as cash and bank balances, trade and bills and other receivables and payables, and borrowings held by its subsidiaries, which are denominated in RMB, United States dollar ("US$") and other currencies.

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. During the year ended 31 December 2021, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities), US$ (the denomination currency of majority of the Group's imports of raw materials and property, plant and equipment and borrowings) and HK$ (the denomination currency of borrowings) resulted in a total exchange gain of RMB121,185,000 (2020: exchange gain of RMB321,782,000). The Group has not experienced any difficulties in getting sufficient foreign currencies for settlement of purchase obligations or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans.

At 31 December 2021, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit for the year would have been RMB309,799,000 (2020: RMB186,147,000) higher/lower.

(2) Price risk

The Group is exposed to raw material price risk because of the volatility of major raw materials such as wood pulp. To manage price risks, the Group enters into long term contracts and diversifies its suppliers to mitigate the risk of significant raw material price changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk (continued)

(3) Cash flow and fair value interest rate risk

Except for restricted bank deposits, long-term bank time deposits and cash and bank balances (Note 23), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2021, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit for the year would have been RMB36,855,000/RMB30,110,000 (2020: RMB45,107,000/RMB38,988,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, other receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Group's sales are settled in cash or by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that settlement of trade receivables are followed up on a timely basis.

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk *(continued)*

At 31 December 2021, all restricted bank deposits and bank balances were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2021 and 2020:

	2021 RMB'000	2020 RMB'000
Counterparties		
– Big 4 domestic banks *(Note)*	2,222,326	3,036,834
– Other reputable and sizeable domestic commercial banks	19,333,062	19,566,919
– Highly reputable and sizeable foreign-owned banks	727,225	1,366,734
	22,282,613	23,970,487

Note:

Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

The Group applies HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk *(continued)*

On that basis, the loss allowance as at 31 December 2021 was determined as follows for trade and bills receivables:

31 December 2021	Within 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Gross carrying amount	2,793,798	137,069	97,335	3,028,202
Expected loss rate	0.64%	1.34%	39.31%	
Loss allowance	17,925	1,837	38,258	58,020

31 December 2020	Within 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Gross carrying amount	3,244,838	106,096	91,379	3,442,313
Expected loss rate	0.52%	1.46%	53.31%	
Loss allowance	16,893	1,554	48,717	67,164

The closing loss allowances for trade and bills receivables as at 31 December reconcile to the opening loss allowances as follows:

	2021 RMB'000	2020 RMB'000
Opening loss allowance as at 1 January	67,164	65,164
Increase in loss allowance recognised in profit or loss during the year *(Note 7)*	9,425	4,163
Receivables written off during the year as uncollectible	(18,211)	(2,334)
Currency translation differences	(358)	171
Closing loss allowance at 31 December	58,020	67,164

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60–90 days past due.

Impairment losses on trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk

Cash flow is managed at Group level by head office finance department ("Group Finance"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Group Finance mainly invests surplus cash in time deposits, with appropriate maturities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 5 years RMB'000	Total RMB'000
At 31 December 2021					
Borrowings	**17,487,753**	**737,083**	**2,081**	**178**	**18,227,095**
Interest payables of borrowings	**164,152**	**6,590**	**63**	**–**	**170,805**
Net settled derivative financial instruments	**5,028**	**–**	**–**	**–**	**5,028**
Lease liabilities	**18,458**	**8,785**	**2,166**	**182**	**29,591**
Trade, bills and other payables	**2,955,077**	**–**	**–**	**–**	**2,955,077**
Total	**20,630,468**	**752,458**	**4,310**	**360**	**21,387,596**
At 31 December 2020					
Borrowings	18,344,744	2,014,125	476,100	2,393	20,837,362
Interest payables of borrowings	195,822	51,406	4,903	67	252,198
Net settled derivative financial instruments	15,643	–	–	–	15,643
Lease liabilities	11,736	6,947	1,643	332	20,658
Trade, bills and other payables	2,627,786	–	–	–	2,627,786
Total	21,195,731	2,072,478	482,646	2,792	23,753,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gross gearing ratio is calculated on the basis of the total borrowings as a percentage of the total shareholders' equity excluding non-controlling interests. The net gearing ratio is calculated on the basis of net debt as a percentage of the shareholders' equity excluding non-controlling interests. Net debt is calculated as total borrowings less long-term bank time deposits and cash and bank balances.

During the year ended 31 December 2021, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December was as follows:

	2021 RMB'000	2020 RMB'000
Gross gearing ratio:		
Total borrowings	**18,227,095**	20,836,300
Total equity excluding non-controlling interests	**19,037,040**	19,411,390
Gross gearing ratio	**95.7%**	107.3%
Net gearing ratio:		
Total borrowings	**18,227,095**	20,836,300
Less: long-term bank time deposits and cash and bank balances	**(22,282,647)**	(23,965,886)
Net debt	**(4,055,552)**	(3,129,586)
Total equity excluding non-controlling interests	**19,037,040**	19,411,390
Net gearing ratio	**N/A**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2021 and 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Recurring fair value measurements	*Notes*	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021					
Financial assets					
FVPL	*24*	–	–	**194,342**	**194,342**
Derivative financial instruments	*22*	–	–	**913**	**913**
		–	–	**195,255**	**195,255**
Financial liabilities					
Derivative financial instruments	*22*	–	–	**(5,028)**	**(5,028)**

Recurring fair value measurements	*Notes*	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2020					
Financial assets					
FVPL	*24*	–	100,884	156,593	257,477
Financial liabilities					
Derivative financial instruments	22	–	–	(15,643)	(15,643)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group's deposit fund above are level 2 instruments and their fair value is determined with reference to quotations provided by various banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Fair value estimation *(continued)*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group's unlisted preference shares are level 3 instruments and their fair value is determined with inputs for the asset or liability that are not based on observable market data. The Group's derivative financial instruments above are level 3 instruments and their fair value is determined with reference to valuation reports provided by various banks.

(i) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 31 December 2021:

	Unlisted preference shares RMB'000	Derivative financial instruments RMB'000	Total RMB'000
Closing balance 31 December 2020	156,593	(15,643)	140,950
Acquisitions	–	–	–
Disposals	–	–	–
Gains recognised in other income	41,908	11,275	53,183
Currency translation differences	(4,159)	253	(3,906)
Closing balance as at 31 December 2021	**194,342**	**(4,115)**	**190,227**

(ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for unlisted preference shares:

Description	Fair value at		Unobservable inputs	Inputs	Relationship of unobservable inputs to fair values
	31 Dec 2021 RMB'000	31 Dec 2020 RMB'000			
Unlisted preference shares	**194,342**	156,593	Risk-free Rate	1.25%	The higher the risk-free rate, the higher the fair value
			Volatility	45.00%	The higher the expected volatility, the lower the fair value

(iii) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Current tax and deferred income tax

The Group is subject to income taxes in the PRC and certain overseas countries. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

(c) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(7)(i). The recoverable amounts of CGUs was determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). These calculations require the use of estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers have been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports provided for review by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other income and other gains – net, finance income/(costs) and income tax expense which is consistent with that in the consolidated financial statements.

Operations are mainly organised under the segment of the Group's manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out at terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the consolidated statement of profit or loss. Revenues from sales of goods recognised during the year are as follows:

	2021 RMB'000	2020 RMB'000
Personal hygiene products		
– Sanitary napkin products	**6,116,530**	6,654,711
– Disposable diaper products	**1,219,445**	1,425,567
– Tissue paper products	**9,842,429**	10,382,758
Others	**3,611,740**	3,910,965
	20,790,144	22,374,001

Most of the Group companies are domiciled in PRC. The revenue from external customers in PRC accounted for more than 90% of the Group's total revenue.

The total non-current assets (other than deferred income tax assets and long-term bank time deposit) located in Mainland China amounted to RMB9,433,579,000 as at 31 December 2021 (2020: RMB9,585,886,000) and the total non-current assets located in other places amounted to RMB1,009,244,000 (2020: RMB995,590,000).

During the year ended 31 December 2021, there was no single customer generated more than 10% of the Group's total revenue (2020: None).

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Additions to non-current assets comprise additions to property, plant and equipment (Note 13), leases (Note 14), investment properties (Note 15), construction-in-progress (Note 16) and intangible assets (Note 17).

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets and derivative financial instruments. Unallocated liabilities comprise corporate liabilities and derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 REVENUE AND SEGMENT INFORMATION *(continued)*

The segment information provided to the Executive Directors for the reportable segments is as follows:

	2021				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,167,719	1,293,759	10,713,445	4,468,751	22,643,674
Inter-segment sales	(51,189)	(74,314)	(871,016)	(857,011)	(1,853,530)
Revenue of the Group	6,116,530	1,219,445	9,842,429	3,611,740	20,790,144
Segment profit	2,712,686	77,951	422,558	43,245	3,256,440
Unallocated costs					(19,840)
Other income and other gains – net					1,306,991
Operating profit					4,543,591
Finance income					294,662
Finance costs					(465,565)
Share of net losses of associates					(43,122)
Profit before income tax					4,329,566
Income tax expense					(1,039,362)
Profit for the year					3,290,204
Non-controlling interests					(16,603)
Profit attributable to shareholders of the Company					3,273,601
Other items for the year ended 31 December 2021					
Additions to non-current assets	157,674	43,390	373,306	66,026	640,396
Depreciation of property, plant and equipment and investment properties	172,309	38,910	528,608	50,453	790,280
Depreciation of right-of-use assets	12,107	3,444	23,401	7,551	46,503
Amortisation charge	19,769	–	324	14,025	34,118
As at 31 December 2021					
Segment assets	4,190,495	1,279,550	11,414,922	2,163,264	19,048,231
Deferred income tax assets					544,762
Current income tax recoverable					7,427
Investments in associates					53,330
FVPL					194,342
Long-term time deposits					4,035,960
Cash and bank balances					18,246,687
Unallocated assets					162,009
Total assets					42,292,748
Segment liabilities	1,027,890	272,345	2,434,935	453,465	4,188,635
Deferred income tax liabilities					224,633
Current income tax liabilities					280,712
Borrowings					18,227,095
Unallocated liabilities					91,223
Total liabilities					23,012,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 REVENUE AND SEGMENT INFORMATION *(continued)*

	2020				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,804,704	1,526,780	11,097,505	4,836,954	24,265,943
Inter-segment sales	(149,993)	(101,213)	(714,747)	(925,989)	(1,891,942)
Revenue of the Group	6,654,711	1,425,567	10,382,758	3,910,965	22,374,001
Segment profit	3,215,281	119,363	1,040,685	266,831	4,642,160
Unallocated costs					(23,390)
Other income and other gains – net					1,773,618
Operating profit					6,392,388
Finance income					291,811
Finance costs					(718,295)
Share of net losses of associates					(4,482)
Profit before income tax					5,961,422
Income tax expense					(1,352,980)
Profit for the year					4,608,442
Non-controlling interests					(13,627)
Profit attributable to shareholders of the Company					4,594,815
Other items for the year ended 31 December 2020					
Additions to non-current assets	132,102	74,070	294,611	85,868	586,651
Depreciation of property, plant and equipment and investment properties	167,642	37,590	505,606	54,100	764,938
Depreciation of right-of-use assets	10,667	3,162	18,568	8,014	40,411
Amortisation charge	16,020	–	382	15,551	31,953
As at 31 December 2020 (restated)					
Segment assets	4,056,919	1,407,668	11,822,993	2,104,362	19,391,942
Deferred income tax assets					435,821
Current income tax recoverable					48,995
Investments in associates					97,188
FVPL					257,477
Long-term time deposits					3,482,147
Cash and bank balances					20,483,739
Unallocated assets					243,616
Total assets					44,440,925
Segment liabilities	792,958	248,384	2,246,925	310,718	3,598,985
Deferred income tax liabilities					216,222
Current income tax liabilities					2,177
Borrowings					20,836,300
Unallocated liabilities					125,767
Total liabilities					24,779,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contract liabilities		
Sanitary napkins products	**66,398**	36,020
Disposable diapers products	**21,735**	20,443
Tissue paper products	**121,602**	68,543
Others	**15,892**	9,841
Total contract liabilities	**225,627**	134,847

Management expects that all of the transaction price allocated to unsatisfied performance obligations as of 31 December 2021 will be recognised as revenue during the next year.

The following table shows how much of the revenue recognised in the current reporting period related to carried-forward contract liabilities from prior year.

	2021	2020
	RMB'000	RMB'000
Sanitary napkins products	**36,020**	37,579
Disposable diapers products	**20,443**	21,577
Tissue paper products	**68,543**	80,521
Others	**9,841**	5,553
	134,847	145,230

6 OTHER INCOME AND OTHER GAINS – NET

	2021	2020
	RMB'000	RMB'000
Income from long-term and short-term bank time deposits	**679,024**	917,090
Government grants income *(Note)*	**477,502**	605,056
Fair value gains on FVPL	**41,908**	–
Losses on disposal of property, plant and equipment	**(31,339)**	(14,615)
Exchange gains from operating activities – net	**109,152**	249,214
Realised fair value gains on derivative financial instruments	**15,449**	6,891
Unrealised fair value losses on derivative financial instruments	**(4,174)**	(16,519)
Others	**19,469**	26,501
	1,306,991	1,773,618

Note:

These represented government grants received from certain municipal governments of Mainland China as an encouragement of the Group's contributions to the development of the local economy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and distribution costs, administrative expenses and net impairment on financial assets were analysed as follows:

	2021 RMB'000	2020 RMB'000
Raw materials and consumables used	**10,893,213**	10,839,391
Employee benefit expense, including Directors' emoluments *(Note 12)*	**1,946,671**	1,879,932
Marketing and advertising expenses	**957,548**	1,316,330
Transportation and loading expenses	**891,176**	917,246
Depreciation of property, plant and equipment *(Note 13)*	**783,973**	758,897
Utilities and various office expenses	**731,600**	773,016
Research and development expenses	**352,005**	388,945
Repairs and maintenance expenses	**151,343**	155,979
Tax surcharges	**142,830**	132,906
Travelling expenses	**141,516**	128,566
Short-term and low-value lease expenses *(Note 14)*	**86,684**	93,426
Depreciation of right-of-use assets *(Note 14)*	**46,503**	40,411
Provision for inventories write-down *(Note 20)*	**6,594**	9,651
Amortisation of intangible assets *(Note 17)*	**34,118**	31,953
Net impairment losses on financial assets *(Note 3(a)(ii))*	**9,425**	4,163
Auditor's remuneration		
– Audit services	**6,000**	6,000
– Non-audit services	**1,937**	2,276
Impairment charge on property, plant and equipment *(Note 13)*	**–**	18,675
Impairment charge on investment properties *(Note 15)*	**–**	6,568
Changes in inventories of finished goods	**(5,251)**	(84,494)
Others	**375,659**	335,394
Total cost of sales, selling and distribution costs, administrative expenses and net impairment on financial assets	**17,553,544**	17,755,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

8 FINANCE INCOME AND FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Finance costs:		
Interest expense		
– Borrowings	**453,578**	710,080
– Lease liabilities	**1,340**	906
Other finance charges	**16,625**	17,401
Total finance costs incurred	**471,543**	728,387
Less: Finance costs capitalised in buildings and machinery under construction-in-progress *(Note 16)*	**(5,978)**	(10,092)
	465,565	718,295
Finance income:		
Interest income from cash and cash equivalents	**(282,629)**	(219,243)
Exchange gain	**(12,033)**	(72,568)
	(294,662)	(291,811)
Finance costs, net	**170,903**	426,484

For the year ended 31 December 2021, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 2.18% (2020: 2.81%) per annum.

9 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	2021 RMB'000	2020 RMB'000
Current income tax		
– Current tax on profits for the year	**931,197**	1,350,340
– PRC withholding income tax	**208,848**	182,067
Deferred income tax, net *(Note 30)*	**(100,683)**	(179,427)
Income tax expense	**1,039,362**	1,352,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 INCOME TAX EXPENSE *(continued)*

(a) Taxation on Mainland China income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China in which the Group's subsidiaries operate. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25%.

Certain subsidiaries were approved to be new and high-technology enterprises and are entitled to the tax rate of 15%.

Also, according to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy" (財税[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知") issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in Mainland China were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the foresaid preferential tax rate.

(b) Hong Kong and overseas profits tax has been calculated at the rates of taxation prevailing in the regions in which the Group operates respectively.

(c) The profits of Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to investors in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

(d) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the Group's companies as follows:

	2021 RMB'000	2020 RMB'000
Profit before income tax	**4,329,566**	5,961,422
Tax calculated at tax rates applicable to profits of the Group's companies	**1,037,410**	1,387,330
Tax exemption and concession on the profits of certain subsidiaries	**(212,661)**	(237,325)
Withholding tax on distributed profit and unremitted earnings	**220,084**	230,108
Others	**(5,471)**	(27,133)
Income tax expense	**1,039,362**	1,352,980

The weighted average applicable tax rate was 24.0% (2020: 23.3%).

(e) There is no tax charge relating to components of OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year.

	2021	2020
Profit attributable to shareholders of the Company (RMB'000)	**3,273,601**	4,594,815
Weighted average number of shares outstanding (thousands)	**1,174,893**	1,189,149
Basic earnings per share (RMB)	**2.786**	3.864

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2021 and 2020, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

11 DIVIDENDS

	2021 RMB'000	2020 RMB'000
Interim, paid, RMB1.00 (2020: RMB1.20) per ordinary share *(Note)*	**1,175,121**	1,427,625
Final, proposed/paid, RMB0.70 (2020: RMB1.30) per ordinary share *(Note)*	**813,485**	1,530,799
	1,988,606	2,958,424

Note:

The dividends paid in 2021 amounted to RMB2,705,920,000 (2021 interim: RMB1.00 per share, 2020 final: RMB1.30 per share). The dividends paid in 2020 amounted to RMB2,914,734,000 (2020 interim: RMB1.20 per share, 2019 final: RMB1.25 per share).

A final dividend in respect of the year ended 31 December 2021 of RMB0.70 per share, amounting to a total dividend of RMB813,485,000, was proposed by the Board of Directors at a meeting held on 22 March 2022, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 20 May 2022. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.860152 per share using the exchange rate of HK$ to RMB on 21 March 2022,which is 0.81381.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

12 EMPLOYEE BENEFIT EXPENSE

	2021 RMB'000	2020 RMB'000
Wages and salaries	**1,677,370**	1,731,437
Retirement and social benefits cost	**269,301**	143,854
Equity-settled share-based payment *(Note 26)*	–	4,641
Total employee benefit expense	**1,946,671**	1,879,932

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2020: four) Directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one(2020: one) individual during the year are as follows:

	2021 RMB'000	2020 RMB'000
Basic salaries, other allowances and benefits-in-kind	**1,296**	1,081
Bonuses	–	403
	1,296	1,484

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Emolument bands		
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,243,951 to RMB1,658,600)	**1**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2021					
At 1 January 2021	**3,169,366**	**4,272,312**	**126,125**	**3,627**	**7,571,430**
Additions	**15,905**	**78,434**	**31,877**	**190**	**126,406**
Transfer from construction-in-progress *(Note 16)*	**112,940**	**275,188**	**39,787**	**–**	**427,915**
Transfer to investment properties *(Note 15)*	**(6,102)**	**–**	**–**	**–**	**(6,102)**
Depreciation for the year *(Note 7)*	**(229,644)**	**(517,694)**	**(35,677)**	**(958)**	**(783,973)**
Disposals	**(2,264)**	**(32,011)**	**(1,215)**	**(277)**	**(35,767)**
Currency translation differences	**(1,340)**	**(1,666)**	**(147)**	**(29)**	**(3,182)**
Closing net book amount	**3,058,861**	**4,074,563**	**160,750**	**2,553**	**7,296,727**
At 31 December 2021					
Cost	**5,105,846**	**8,921,493**	**425,145**	**18,322**	**14,470,806**
Accumulated depreciation and impairment charges	**(2,046,985)**	**(4,846,930)**	**(264,395)**	**(15,769)**	**(7,174,079)**
Net book amount	**3,058,861**	**4,074,563**	**160,750**	**2,553**	**7,296,727**
Year ended 31 December 2020					
At 1 January 2020	3,368,029	4,341,992	106,456	5,980	7,822,457
Additions	17,519	134,624	44,705	407	197,255
Transfer from construction-in-progress *(Note 16)*	15,370	334,363	6,415	–	356,148
Transfer to investment properties *(Note 15)*	(663)	–	–	–	(663)
Depreciation for the year *(Note 7)*	(225,153)	(501,398)	(30,522)	(1,824)	(758,897)
Impairment charges for the year *(Note 7)*	–	(18,675)	–	–	(18,675)
Disposals	(2,593)	(15,081)	(774)	(1,011)	(19,459)
Currency translation differences	(3,143)	(3,513)	(155)	75	(6,736)
Closing net book amount	3,169,366	4,272,312	126,125	3,627	7,571,430
At 31 December 2020					
Cost	5,003,780	8,729,592	367,587	21,289	14,122,248
Accumulated depreciation and impairment charges	(1,834,414)	(4,457,280)	(241,462)	(17,662)	(6,550,818)
Net book amount	3,169,366	4,272,312	126,125	3,627	7,571,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Manufacturing overheads included under cost of goods sold	**574,762**	550,237
Selling and distribution costs	**4,021**	4,230
Administrative expenses	**205,190**	204,430
	783,973	758,897

As at 31 December 2021, property, plant and equipment with a carrying amount of RMB10,386,000 (cost of RMB12,770,000) are pledged as collateral for the Group's bank borrowings of RMB6,111,000 (2020: plant and equipment with a carrying amount of RMB12,086,000 (cost of RMB13,529,000) are pledged as collateral for the Group's bank borrowings of RMB8,348,000) (Note 29).

14 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Right-of-use assets		
– Land use rights	**951,181**	950,571
– Buildings	**27,874**	19,600
Total right-of-use assets	**979,055**	970,171
Lease liabilities		
– Current	**(17,607)**	(11,110)
– Non-current	**(10,843)**	(8,665)
Total lease liabilities	**(28,450)**	(19,775)

Additions to the right-of-use assets for the year ended 31 December 2021 financial year were RMB61,363,000 (2020: RMB24,882,000).

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For the year ended 31 December 2021

14 LEASES *(continued)*

(b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Depreciation of right-of-use assets *(Note 7)*		
– Land use rights	**27,672**	27,178
– Buildings	**18,831**	13,101
– Equipment and others	**–**	132
	46,503	40,411
Interest expense *(Note 8)*	**1,340**	906
Short-term and low-value lease expenses *(Note 7)*	**86,684**	93,426

The total cash payment for leases in the year ended 31 December 2021 was RMB140,136,000 (2020: RMB108,885,000).

15 INVESTMENT PROPERTIES

	2021	2020
	RMB'000	RMB'000
At 1 January		
Opening net book amount	**213,609**	226,233
Currency translation differences	**(592)**	(749)
Addition	**–**	71
Transfer from right-of-use assets	**3,481**	–
Transfer from property, plant and equipment *(Note 13)*	**6,102**	663
Depreciation for the year	**(6,307)**	(6,041)
Impairment charges for the year *(Note 7)*	**–**	(6,568)
Closing net book amount	**216,293**	213,609
At 31 December		
Cost	**304,292**	280,405
Accumulated depreciation and impairment charges	**(87,999)**	(66,796)
Net book amount	**216,293**	213,609

The above investment properties are located in Fujian, Guangxi, Sichuan, Chongqing and Tianjin the PRC, Selangor and Johor, Malaysia, and depreciated on a straight-line basis over 20 to 40 years.

The Group's investment properties are stated at historical cost at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

15 INVESTMENT PROPERTIES *(continued)*

Amounts recognised in profit and loss for investment properties are as follow:

	2021 RMB'000	2020 RMB'000
Rental income	**28,724**	30,501
Direct operating expenses	**(5,648)**	(5,927)
Net book amount	**23,076**	24,574

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Other income and other gains – net	**6,307**	6,041

16 CONSTRUCTION-IN-PROGRESS

	2021 RMB'000	2020 RMB'000
At 1 January	**489,052**	543,534
Additions	**448,510**	332,295
Transfer to property, plant and equipment *(Note 13)*	**(427,915)**	(356,148)
Transfer to Intangible assets *(Note 17)*	**–**	(30,629)
At 31 December	**509,647**	489,052

During the year ended 31 December 2021, finance costs capitalised in construction-in-progress amounted to RMB5,978,000 (2020: RMB10,092,000) (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks and licences RMB'000	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2021					
Cost	**488,290**	**32,404**	**58,945**	**264,199**	**843,838**
Accumulated amortisation	**–**	**(16,308)**	**(16,873)**	**(55,213)**	**(88,394)**
Net book amount	**488,290**	**16,096**	**42,072**	**208,986**	**755,444**
Year ended 31 December 2021					
Opening net book amount	**488,290**	**16,096**	**42,072**	**208,986**	**755,444**
Additions	**–**	**52**	**–**	**4,065**	**4,117**
Amortisation charge for the year *(Note 7)*	**–**	**(8,349)**	**(5,893)**	**(19,876)**	**(34,118)**
Disposals	**–**	**–**	**–**	**(665)**	**(665)**
Closing net book amount	**488,290**	**7,799**	**36,179**	**192,510**	**724,778**
At 31 December 2021					
Cost	**488,290**	**32,456**	**58,945**	**267,540**	**847,231**
Accumulated amortisation	**–**	**(24,657)**	**(22,766)**	**(75,030)**	**(122,453)**
Net book amount	**488,290**	**7,799**	**36,179**	**192,510**	**724,778**
At 1 January 2020					
Cost	488,290	32,404	58,945	201,422	781,061
Accumulated amortisation	–	(7,901)	(10,976)	(37,564)	(56,441)
Net book amount	488,290	24,503	47,969	163,858	724,620
Year ended 31 December 2020					
Opening net book amount	488,290	24,503	47,969	163,858	724,620
Additions	–	–	–	32,148	32,148
Transfer from construction-in-progress (Note 16)	–	–	–	30,629	30,629
Amortisation charge for the year (Note 7)	–	(8,407)	(5,897)	(17,649)	(31,953)
Closing net book amount	488,290	16,096	42,072	208,986	755,444
At 31 December 2020					
Cost	488,290	32,404	58,945	264,199	843,838
Accumulated amortisation	–	(16,308)	(16,873)	(55,213)	(88,394)
Net book amount	488,290	16,096	42,072	208,986	755,444

Amortisation has been charged to administrative expenses in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2021 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified by business segments.

A summary of goodwill by reporting segment is presented below:

	2021 RMB'000	2020 RMB'000
Tissue paper products	**479,713**	479,713
Others	**8,577**	8,577
	488,290	488,290

The recoverable amount of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming revenue growth rate ranging from 2.9% to 3.0% (2020: 2.6% to 3.4%) and gross profit margins of 28.6% (2020: 30.9%). The cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 12.2% (2020: 12.0%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2021 and 2020 and any reasonable change to the key assumptions would not lead to an impairment.

18 PREPAYMENTS FOR NON-CURRENT ASSETS

The balance represented prepayments for purchase of property, plant and equipment and land use rights.

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For the year ended 31 December 2021

19 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade and other receivables, excluding prepayments and value added tax recoverable	**3,455,887**	3,979,418
– Restricted bank deposits	**303**	4,812
– Long-term bank time deposits *(Note 23)*	**4,035,960**	3,482,147
– Cash and bank balances *(Note 23)*	**18,246,687**	20,483,739
FVPL *(Note 24)*	**194,342**	257,477
Derivative financial instruments *(Note 22)*	**913**	–
Total	**25,934,092**	28,207,593

(b) Liabilities

	2021 RMB'000	2020 RMB'000
Financial liabilities		
Financial assets at amortised cost		
– Trade and other payables, excluding non-financial liabilities	**2,955,077**	2,627,786
– Borrowings *(Note 29)*	**18,227,095**	20,836,300
– Lease liabilities *(Note 14)*	**28,450**	19,775
Derivative financial instruments *(Note 22)*	**5,028**	15,643
Total	**21,215,650**	23,499,504

20 INVENTORIES

	2021 RMB'000	2020 RMB'000
Finished goods	**1,782,602**	1,777,351
Raw materials	**2,147,972**	2,298,587
Spare parts and consumables	**231,903**	234,980
Total	**4,162,477**	4,310,918

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB10,887,962,000 (2020: RMB10,754,897,000).

The Group provided a provision for inventories of RMB6,594,000 (2020: RMB9,651,000). These amounts have been included in cost of sales in the consolidated statement of profit or loss (Note 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2021 RMB'000	2020 RMB'000
Trade receivables	3,006,542	3,427,737
Bills receivables	21,660	14,576
	3,028,202	3,442,313
Less: provision for impairment	(58,020)	(67,164)
Trade and bills receivables, net	2,970,182	3,375,149
Other receivables, prepayments and deposits		
– Advance payments to suppliers	713,471	531,321
– Value added tax recoverables	613,150	441,443
– Government grants receivables	211,530	355,990
– Interest income receivables	263,798	236,007
– Prepaid expenses	68,887	39,919
– Others	10,377	12,272
	1,881,213	1,616,952
Trade, bills and other receivables, prepayments and deposits	4,851,395	4,992,101

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	1,178,212	1,557,041
31–180 days	1,615,586	1,687,797
181–365 days	137,069	106,096
Over 365 days	97,335	91,379
	3,028,202	3,442,313

As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

Information about the impairment of trade and bills receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

22 DERIVATIVE FINANCIAL INSTRUMENTS

These amounts represented the fair value of foreign currency swap contracts and interest rate swap contracts entered into with banks. These contracts are regarded as derivative financial instruments.

	2021 RMB'000	2020 RMB'000
Assets:		
Interest rate swap contracts	913	–
Liabilities:		
Interest rate swap contracts	(1,075)	(14,437)
Foreign currency swap contract	(3,953)	(1,206)
	(5,028)	(15,643)
Total	(4,115)	(15,643)

Non-hedging derivatives are classified as current assets or liabilities.

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to Note 3(c).

23 LONG-TERM BANK TIME DEPOSITS AND CASH AND BANK BALANCES

	2021 RMB'000	2020 RMB'000
Long-term bank time deposits	4,035,960	3,482,147
Cash and bank balances		
– Bank time deposits	5,906,871	8,876,680
– Cash and cash equivalents	12,339,816	11,607,059
	18,246,687	20,483,739
Total	22,282,647	23,965,886

The cash and cash equivalents represented cash deposits held at call with banks and in hand and other short-term highly liquid investments with maturities of three months or less.

The effective interest rate on bank deposits as at 31 December 2021 was approximately 3.23% (31 December 2020: 4.10%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

23 LONG-TERM BANK TIME DEPOSITS AND CASH AND BANK BALANCES *(continued)*

The carrying amounts of the long-term bank time deposits and cash and bank balances were denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
Long-term bank time deposits		
RMB	**4,035,960**	3,155,960
Others	**–**	326,187
Total	**4,035,960**	3,482,147
Cash and bank balances		
RMB	**14,828,085**	14,465,096
US$	**3,089,129**	5,864,510
HK$	**100,088**	57,344
Others	**229,385**	96,789
Total	**18,246,687**	20,483,739

The Group's bank deposits and cash denominated in RMB, US$ and HK$ are mainly deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at fair value through profit or loss include the following:

	2021 RMB'000	2020 RMB'000
Non-current assets		
Unlisted preference shares	**194,342**	156,593
Current assets		
Deposit fund	**–**	100,884
Total	**194,342**	257,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2021	**1,186,337,417**	**125,366**
Cancellation of buy-back shares *(Note)*	**(24,216,500)**	**(2,021)**
At 31 December 2021	**1,162,120,917**	**123,345**
At 1 January 2020	1,189,677,417	125,654
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 26)*	10,000	1
Cancellation of buy-back shares *(Note)*	(3,350,000)	(289)
At 31 December 2020	1,186,337,417	125,366

Note:

The Group acquired its own ordinary shares of 24,216,500 on the Stock Exchange from 23 March 2021 till 8 October 2021, all shares had been cancelled after buy-back. The total amount paid to acquire the shares was RMB936,732,000 and had been deducted from share capital, other reserves and retained earnings within shareholders' equity during the year ended 31 December 2021.

The Group acquired its own ordinary shares of 3,350,000 on the Stock Exchange from 19 October 2020 till 10 November 2020, all shares had been cancelled after buy-back. The total amount paid to acquire the shares was RMB154,409,000 and had been deducted from share capital and other reserves within shareholders' equity during the year ended 31 December 2020.

26 SHARE-BASED COMPENSATION

The Company adopted a share option scheme on 26 May 2011 ("2011 Scheme"). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2021		2020	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**74.46**	**15,319**	74.46	15,329
Exercised	**–**	**–**	68.30	(10)
Cancelled or lapsed	**70.87**	**(4,347)**	–	–
At 31 December	**75.88**	**10,972**	74.46	15,319

All 10,972,000 outstanding options were exercisable as at 31 December 2021 (2020: 15,319,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

26 SHARE-BASED COMPENSATION *(continued)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise price in HK$ per share option	Options (thousands) 2021	2020
Expiry date – 27 July 2021	68.30	–	1,839
Expiry date – 28 July 2022	72.75	5,639	8,147
Expiry date – 5 October 2025	79.20	5,333	5,333
		10,972	15,319

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. There is no share-based compensation expense for the year ended 31 December 2021 (2020: RMB4,641,000) (Note 12) since all outstanding options were exercisable as at 1 January 2021, and there is no remaining unamortised fair value (2020: Nil) will be charged to the consolidated statement of profit or loss in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2011 Scheme are 102,422,872, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the 2011 Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

27 OTHER RESERVES

	Treasury shares RMB'000	Share premium RMB'000 *(Note(a))*	Capital redemption reserve RMB'000	Statutory reserves RMB'000 *(Note(b))*	Share-based Compensation reserve RMB'000	Exchange reserve RMB'000 *(Note(c))*	Total RMB'000
At 1 January 2021	–	373,562	1,922	2,244,432	332,860	180,626	3,133,402
Other comprehensive income							
– currency translation differences	–	–	–	–	–	(5,299)	(5,299)
Appropriation to statutory reserves *(Note 28)*	–	–	–	108,107	–	–	108,107
Buy-back of shares *(Note 25)*	(936,732)	–	–	–	–	–	(936,732)
Cancellation of shares *(Note 25)*	936,732	(373,562)	–	–	–	–	563,170
At 31 December 2021	–	–	1,922	2,352,539	332,860	175,327	2,862,648
At 1 January 2020	–	516,702	1,922	2,173,280	328,406	183,284	3,203,594
Other comprehensive income							
– currency translation differences	–	–	–	–	–	(2,658)	(2,658)
Appropriation to statutory reserves *(Note 28)*	–	–	–	71,152	–	–	71,152
Share-based compensation							
– value of employee services *(Note 26)*	–	–	–	–	4,641	–	4,641
– proceeds from shares issued	–	606	–	–	–	–	606
– exercise of share options	–	187	–	–	(187)	–	–
Buy-back of shares *(Note 25)*	(154,409)	–	–	–	–	–	(154,409)
Cancellation of shares *(Note 25)*	154,409	(154,120)	–	–	–	–	289
Change in ownership interests in subsidiaries without change of control	–	10,187	–	–	–	–	10,187
At 31 December 2020	–	373,562	1,922	2,244,432	332,860	180,626	3,133,402

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(b) Statutory reserves represent statutory surplus reserve of the subsidiary companies in Mainland China. The Company's subsidiaries incorporated in Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in Mainland China at rate of 10% or at the discretion of the board of Directors of Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(c) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from RMB, the presentation currency of the financial statements of the Group.

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28 RETAINED EARNINGS

	2021 RMB'000	2020 RMB'000
At 1 January	**16,152,622**	14,543,693
Profit for the year	**3,273,601**	4,594,815
Appropriation to statutory reserves *(Note 27)*	**(108,107)**	(71,152)
2020/2019 final dividends paid *(Note 11)*	**(1,530,799)**	(1,487,109)
2021/2020 interim dividends paid *(Note 11)*	**(1,175,121)**	(1,427,625)
Cancellation of buy-back shares	**(561,149)**	–
At 31 December	**16,051,047**	16,152,622

29 BORROWINGS

	2021 RMB'000	2020 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	**650,305**	2,384,705
Long-term bank loans – secured (a)	**4,237**	6,473
Other borrowings – unsecured (a)	**84,800**	101,440
	739,342	2,492,618
Current		
Short-term bank loans – unsecured (a)	**15,206,140**	17,031,684
Current portion of long-term bank loans – unsecured (a)	**1,991,500**	3,000
Corporate bonds (b)	**–**	998,938
Current portion of other borrowings – unsecured (a)	**8,320**	190,000
Trust receipt bank loans (a)	**279,919**	118,185
Current portion of long-term bank loans – secured (a)	**1,874**	1,875
	17,487,753	18,343,682
Total borrowings	**18,227,095**	20,836,300

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29 BORROWINGS *(continued)*

(a) Bank loans and other borrowings

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
RMB	**8,271,560**	9,203,998
HK$	**3,827,545**	2,140,468
US$	**6,034,799**	8,406,118
Other currencies	**93,191**	86,778
	18,227,095	19,837,362

At 31 December, the Group's long-term bank borrowings are repayable as follows:

	2021 RMB'000	2020 RMB'000
Between 1 and 2 years	**652,283**	1,997,485
Between 2 and 3 years	**2,081**	391,300
Between 3 and 5 years	**178**	2,393
	654,542	2,391,178

At 31 December, the Group's long-term other borrowings are repayable as follows:

	2021 RMB'000	2020 RMB'000
Between 1 and 2 years	**84,800**	16,640
Between 2 and 3 years	**–**	84,800
	84,800	101,440

As at 31 December 2021, the effective interest rate of the Group's bank loans and other borrowings is approximately 2.08% (2020: 2.61%) per annum.

As all the long-term bank loans and other borrowings charge interest at fixed rates, the carrying amounts of the bank loans and other borrowings approximated their fair values as at the balance sheet dates.

As at 31 December 2021, bank borrowings of RMB6,111,000 were pledged by the property, plant and equipment (carrying amount of RMB10,386,000 and cost of RMB12,770,000) (Note 13) of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 BORROWINGS *(continued)*

(b) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ("Hengan China Investment"), a wholly-owned subsidiary of the Group issued a corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest of 3.30% per annum. The bond matured on September 2021.

(c) Super short-term commercial papers and short-term commercial paper

During 2021, following super short-term commercial papers and short-term commercial paper were issued and matured:

	Interest rate	Expiration term	Mature date	Amount RMB'000
21恒安國際SCP001	**3.08%**	**181 days**	**2021–09–23**	**1,000,000**
21恒安國際SCP002	**3.00%**	**180 days**	**2021–10–12**	**1,000,000**
21恒安國際SCP003	**2.90%**	**180 days**	**2021–10–23**	**1,000,000**
21恒安國際CP001	**2.90%**	**182 days**	**2021–11–23**	**1,000,000**

30 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income liabilities are as follows:

	2021 RMB'000	2020 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	**374,240**	281,282
– Deferred tax asset to be recovered within 12 months	**170,522**	154,571
	544,762	435,853
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	**(35,205)**	(37,357)
– Deferred tax liability to be settled within 12 months	**(189,428)**	(178,865)
	(224,633)	(216,222)
Deferred income tax assets – net	**320,129**	219,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

30 DEFERRED INCOME TAX *(continued)*

The gross movement on the deferred income tax account is as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	219,631	41,744
Credit to consolidated statement of profit or loss	100,683	179,427
Currency translation differences	(185)	(1,540)
At 31 December	320,129	219,631

The movements in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Unrealised profit in inventories arising from intra-group transactions		Provisions		Tax losses		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
At 1 January	124,560	90,620	30,011	19,787	281,282	102,804	435,853	213,211
Currency translation differences	–	–	(150)	(1,032)	(176)	(676)	(326)	(1,708)
Credited/(charged) to consolidated statement of profit or loss	18,101	33,940	(2,000)	11,256	93,134	179,154	109,235	224,350
At 31 December	142,661	124,560	27,861	30,011	374,240	281,282	544,762	435,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

30 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities:

	Withholding income tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Accelerated depreciation		Total	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000	**2021 RMB'000**	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
At 1 January	**175,752**	127,711	**37,786**	39,938	**2,684**	3,818	**216,222**	171,467
Currency translation differences	**–**	–	**–**	–	**(141)**	(168)	**(141)**	(168)
Charged/(credited) to consolidated statement of profit or loss	**11,236**	48,041	**(2,152)**	(2,152)	**(532)**	(966)	**8,552**	44,923
At 31 December	**186,988**	175,752	**35,634**	37,786	**2,011**	2,684	**224,633**	216,222

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB4,688,000 (2020: RMB7,525,000) in respect of losses amounting to RMB28,410,000 (2020: RMB45,606,000), which are not subject to expiration and can be carried forward against future taxable income.

The Group has been providing deferred income tax liabilities on the withholding income tax on certain amount of the unremitted earnings of some PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2021 and 2020, deferred income tax liabilities of RMB204,367,000 have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to RMB4,087,338,000 as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31 TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	2021 RMB'000	2020 RMB'000
Trade payables	**2,561,424**	2,237,031
Bills payables	**4,062**	7,174
	2,565,486	2,244,205
Other payables and accrued charges		
– Accrued expenses and other payables	**1,206,680**	1,031,157
– Payables for purchase of property, plant and equipment	**219,514**	253,539
– Other taxes payables	**29,073**	25,586
	1,455,267	1,310,282
Trade,bills and other payables and accrued charges	**4,020,753**	3,554,487

At 31 December, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	**1,638,196**	1,209,694
31–180 days	**912,070**	975,847
181–365 days	**3,550**	22,623
Over 365 days	**11,670**	36,041
	2,565,486	2,244,205

The carrying amounts of trade, bills and other payables approximate their fair value as at the balance sheet date due to short-term maturity.

The carrying amounts of trade and bills payables were denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
US$	**1,359,160**	1,204,817
RMB	**1,192,130**	1,006,062
Other currencies	**14,196**	33,326
	2,565,486	2,244,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2021 RMB'000	2020 RMB'000
Profit before income tax	4,329,566	5,961,422
Adjustments for:		
Depreciation of property, plant and equipment *(Note 13)*	783,973	758,897
Depreciation of right-of-use assets *(Note 14)*	46,503	40,411
Depreciation of investment properties *(Note 15)*	6,307	6,041
Amortisation of intangible assets *(Note 17)*	34,118	31,953
Impairment charges of property, plant and equipment *(Note 13)*	–	18,675
Impairment charges of investment properties *(Note 15)*	–	6,568
Unrealised fair value losses on derivative financial instruments *(Note 6)*	4,174	16,519
Realised fair value gains on derivative financial instruments *(Note 6)*	(15,449)	(6,891)
Losses on disposal of property, plant and equipment *(Note 6)*	31,339	14,615
Share-based compensation expenses *(Note 26)*	–	4,641
Fair value gains on FVPL *(Note 6)*	(41,908)	–
Interest income and other finance income	(973,686)	(1,208,901)
Finance costs *(Note 8)*	448,940	718,295
Operating profit before working capital changes	4,653,877	6,362,245
Decrease/(increase) in inventories	138,909	(520,522)
Decrease in trade and bills receivables, other receivables, prepayments and deposits	317,427	359,194
Increase in trade and bills payables, other payables and accrued charges	324,571	322,463
Cash generated from operations	5,434,784	6,523,380

(b) Proceeds from disposal of property, plant and equipment and intangible assets

	2021 RMB'000	2020 RMB'000
Net book value	36,432	19,459
Losses on disposal of property, plant and equipment *(Note 6)*	(31,339)	(14,615)
Proceeds from disposal of property, plant and equipment and intangible assets	5,093	4,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Debt reconciliation

	Bank loans and other borrowings RMB'000	Super short-term/ Short-term commercial papers RMB'000	Leases RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2021	**19,888,852**	**–**	**19,775**	**1,009,335**	**20,917,962**
Cash flows	**(1,722,441)**	**(58,737)**	**(19,862)**	**(1,032,999)**	**(2,834,039)**
Interest expense and other finance charges	**371,177**	**58,737**	**1,340**	**23,664**	**454,918**
Addition of leases	**–**	**–**	**27,344**	**–**	**27,344**
Currency translation differences	**(264,681)**	**–**	**(147)**	**–**	**(264,828)**
Debt as at 31 December 2021	**18,272,907**	**–**	**28,450**	**–**	**18,301,357**
Debt as at 1 January 2020	17,672,976	–	10,325	4,062,376	21,745,677
Cash flows	2,394,130	(59,789)	(13,433)	(3,171,924)	(851,016)
Interest expense and other finance charges	548,809	59,789	906	118,883	728,387
Addition of leases	–	–	22,187	–	22,187
Currency translation differences	(727,063)	–	(210)	–	(727,273)
Debt as at 31 December 2020	19,888,852	–	19,775	1,009,335	20,917,962

33 CONTINGENT LIABILITIES

At 31 December 2021, the Group had no material contingent liabilities (2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34 CAPITAL COMMITMENTS

At 31 December 2021 and 2020, the Group had the following commitments:

(a) Capital commitments

	2021 RMB'000	2020 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	**634,792**	518,029
Leasehold land and buildings	**301,479**	136,459
	936,271	654,488

(b) Commitments under operating leases

The Group is the lessor:

The Group leases out certain office premises under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	2021 RMB'000	2020 RMB'000
Not later than 1 year	**21,677**	27,145
Later than 1 year and not later than 5 years	**52,488**	66,587
Later than 5 years	**14,803**	28,707
	88,968	122,439

35 INVESTMENTS IN ASSOCIATES

The amounts recognised in the balance sheet are as follows:

	2021 RMB'000	2020 RMB'000
Interests in associates	**53,330**	97,188

The amounts recognised in the consolidated income statement are as follows:

	2021 RMB'000	2020 RMB'000
Share of net losses	**(43,122)**	(4,482)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35 INVESTMENTS IN ASSOCIATES *(continued)*

The details of investments in associates are as follows:

	2021 RMB'000	2020 RMB'000
At 1 January 2021	**97,188**	101,670
Share of net losses	**(43,122)**	(4,482)
Currency translation differences	**(736)**	–
At 31 December 2021	**53,330**	97,188

There are no contingent liabilities relating to the Group's interests in the associates.

The particulars of the associates of the Group as at 31 December 2021, all of which equity method is used to account for, are set out as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Paid-up capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	RMB90,252,000	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB11,412,000	Research and development of personal hygiene materials

* For identification purpose only

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2021 and 2020:

(a) Key management compensation

	2021 RMB'000	2020 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**18,144**	15,055
Contributions to pension schemes	**114**	96
	18,258	15,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2021 which, in the opinion of the Directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, E-commerce, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Anhai International Trading Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Hengan (China) Investment Co., Ltd.*	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and sale of personal hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70
PT. Hengan Global	Indonesia, limited liability company	Distribution and sale of personal hygiene products in Indonesia	US$6,200,000	90.32
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02

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For the year ended 31 December 2021

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
Guangdong Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$18,000,000	100
Guangdong Hengan Paper Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB288,888,000	100
Harmony Pharmacare Limited	Hong Kong, limited liability company	Manufacturing, distribution and sale of protective equipment in Hong Kong	40,000,000 ordinary shares of HK$40,000,000	77
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US$15,800,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products and household products in the PRC	US$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	RMB11,100,000	90.10
Hengan (Sichuan) Family Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	100
Hengan (Sichuan) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$16,380,000	100
Hengan (Fushun) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB73,660,000	100

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For the year ended 31 December 2021

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
Hengan (Jiangxi) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$94,388,000	100
Hengan (Hefei) Living Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	100
Jiangxi Hengan Biotechnology Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of medical instrument, skin care products and antiseptics in PRC	RMB15,000,000	80
Hengan (Xiaogan) Medical Instruments Technology Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of medical instrument in PRC	US$10,000,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$165,570,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	US$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan (Guangxi) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hunan) Hearttex Paper Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB209,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB852,280,000	100

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37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB959,200,000	100
Jinjiang Hengan Household Tissue Product Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Shandong Hengan Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$157,710,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$21,987,500	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	100
Hengan (Wuhu) Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB874,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	Japanese Yen 100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
Shandong Hengan Domesticity Technology Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US$51,000,000	100

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For the year ended 31 December 2021

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
Hengan (Zhejiang) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper in the PRC	US$100,000,000	100
Fujian Hengan Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB360,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Xiamen Hengan E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Xiamen Space Seven E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Hengan Li Ren (Jiangxi) Cosmetics Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB35,880,000	100
Xinjiang Hengan Paper Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing and distribution of packaged tissue paper products in the PRC	RMB387,000,000	100
Weifang Hengan Thermal Power Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing and distribution of heating and power in the PRC	US$12,000,000	100
Weifang Hengan Gas Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of gas in the PRC	RMB10,000,000	100
Quanzhou Hengan Anle Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB20,000,000	70

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37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
PT. Hengan Global Hygiene Products	Indonesia, limited liability company	Manufacturing, distribution and sales of papers in Indonesia	US$10,000,000	70
Hengan (Malaysia) Investments Company Limited	British Virgin Islands, limited liability company	Investment holding in Malaysia	1 ordinary share of US$1 each	100
Wang-Zheng Berhad	Malaysia, public listed limited	Investment holding in Malaysia	Malaysian Ringgit ("MYR") 80,000,000	57.30
Wang-Zheng Corporation Sdn. Bhd.	Malaysia, limited liability company	Distributor of disposable fibre-based products in Malaysia	MYR 3,325,000	57.30
Quality Hero Corporation Sdn. Bhd.	Malaysia, limited liability company	Manufacturing, distribution and sale of adult diaper, baby diaper and sanitary napkins products in Malaysia	MYR 250,000	57.30
Carefeel Cotton Industries (M) Sdn. Bhd.	Malaysia, limited liability company	Manufacturing and distribution of facial cotton and other cotton related products	MYR 2,187,500	57.30
New Top Win Corporation Sdn. Bhd.	Malaysia, limited liability company	Importing, processing and trading of papers in Malaysia	MYR 1,000,000	57.30
Modern Alpine Sdn. Bhd.	Malaysia, limited liability company	Trading of papers in Malaysia	MYR 3,000,000	57.30
Hengan (Shaanxi) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$24,980,000	100
Hengan (Hubei) Paper Industry Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in PRC	RMB100,000,000	100
Fujian Hengan Hengpin E-commerce Co., Ltd.*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB10,000,000	100

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For the year ended 31 December 2021

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2021 %
Indirect subsidiaries: *(continued)*				
Hengan (Luxembourg) Investment Company Limited	Luxembourg, limited liability company	Investment holding in Luxembourg	Euro 12,500	100
Hengan (Orient) Hygiene Product Co., Ltd.*	Russia, limited liability company	Manufacturing, distribution and sale of personal hygiene products in Russia	Russian Ruble 600,000,000	51
Sunway Kordis Holding Ltd	Cayman, limited liability company	Investment holding in the PRC	2,099,999 ordinary shares of US$2,100	100
Starful Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Sunway Kordis Asia Limited	Hong Kong, limited liability company	Trading and consultancy in Hong Kong	100 ordinary shares of HK$100	100
Sunway Kordis (Shanghai) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$3,100,000	100
Sunway Household (Weifang) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$2,000,000	100

* *For identification purpose only*

The non-controlling interests in respect of Hengan Pharmacare Company Limited, Harmony Pharmacare Limited, Fujian Hengan Holding Co., Ltd., Quanzhou Jinjiang Hengan Hygiene Science and Technology Co, Ltd., Quanzhou Hengan Anle Homecare Products Co, Ltd., PT. Hengan Global, PT. Hengan Global Hygiene Products, Hengan (Orient) Hygiene Product Co., Ltd., Jiangxi Hengan Biotechnology Co., Ltd and Wang-Zheng Berhad and its subsidiaries are not material.

For the non-wholly owned subsidiaries, the non-controlling interests represent the remaining interests and the related voting rights other than those held by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**5,332,144**	5,392,152
Current assets		
Amounts due from subsidiaries	**5,878,406**	6,472,670
Other receivables, prepayments and deposits	**166**	152
Derivative financial instruments	**433**	–
Cash and bank balances	**34,580**	98,728
	5,913,585	6,571,550
Total assets	**11,245,729**	11,963,702
Equity		
Equity attributable to shareholders of the Company		
Share capital	**123,345**	125,366
Other reserves *(Note(a))*	**(361,842)**	111,654
Retained earnings *(Note(a))*	**7,581,252**	7,728,653
Total equity	**7,342,755**	7,965,673
Liabilities		
Non-current liabilities		
Amounts due to subsidiaries	**1,664,788**	1,698,501
Current liabilities		
Other payables and accrued charges	**11,228**	14,810
Derivative financial instruments	**–**	1,068
Borrowings	**2,226,958**	2,283,650
	2,238,186	2,299,528
Total liabilities	**3,902,974**	3,998,029
Total equity and liabilities	**11,245,729**	11,963,702

The balance sheet of the Company was approved by the Board of Directors on 22 March 2022 and was signed on its behalf.

Director
Sze Man Bok

Director
Hui Ching Lau

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2021	**7,728,653**	**111,654**
Profit for the year	**3,119,668**	–
Currency translation differences	–	**(99,934)**
2020 final dividend paid	**(1,530,799)**	–
2021 interim dividend paid	**(1,175,121)**	–
Buy-back of shares	–	**(936,732)**
Cancellation of shares	**(561,149)**	**563,170**
At 31 December 2021	**7,581,252**	**(361,842)**
At 1 January 2020	5,669,712	503,144
Profit for the year	4,973,675	–
Currency translation differences	–	(242,617)
2019 final dividend paid	(1,487,109)	–
2020 interim dividend paid	(1,427,625)	–
Share-based compensation		
– value of employee services	–	4,641
– proceeds from shares issued	–	606
Buy-back of shares	–	(154,409)
Cancellation of shares	–	289
At 31 December 2020	7,728,653	111,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

39 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and Chief Executive's emoluments

The remuneration of every Director and the Chief Executive for the year ended 31 December 2021 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	78	295	–	15	388
Mr. Hui Lin Chit	78	1,525	–	15	1,618
Mr. Hung Ching Shan	50	116	–	8	174
Mr. Hui Ching Lau	50	4,374	–	4	4,428
Mr. Xu Shui Shen	50	1,264	–	2	1,316
Mr. Xu Da Zuo	50	1,128	–	32	1,210
Mr. Xu Chun Man	50	–	–	2	52
Mr. Sze Wong Kim	50	–	–	2	52
Mr. Hui Ching Chi	78	798	66	16	958
Mr. Li Wai Leung	78	1,294	348	16	1,736
Independent Non-Executive Director					
Mr. Chan Henry	100	–	–	–	100
Ms. Ada Ying Kay Wong	100	–	–	–	100
Mr. Theil Paul Marin	100	–	–	–	100
Mr. Ho Kwai Ching, Mark	100	–	–	–	100
Mr. Zhou Fang Sheng	100	–	–	–	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' and Chief Executive's emoluments *(continued)*

The remuneration of every Director and the Chief Executive for the year ended 31 December 2020 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	75	316	–	16	407
Mr. Hui Lin Chit	75	1,526	627	16	2,244
Mr. Hung Ching Shan	53	116	20	9	198
Mr. Hui Ching Lau	3	–	–	–	3
Mr. Xu Shui Shen	53	1,200	78	3	1,334
Mr. Xu Da Zuo	53	1,042	74	13	1,182
Mr. Xu Chun Man	53	–	–	3	56
Mr. Sze Wong Kim	53	–	–	3	56
Mr. Hui Ching Chi	75	795	319	16	1,205
Mr. Li Wai Leung	75	1,351	311	17	1,754
Independent Non-Executive Director					
Mr. Chan Henry	107	–	–	–	107
Ms. Ada Ying Kay Wong	107	–	–	–	107
Mr. Theil Paul Marin	107	–	–	–	107
Mr. Ho Kwai Ching, Mark	107	–	–	–	107
Mr. Zhou Fang Sheng	107	–	–	–	107

(b) Directors' termination benefits

There were no termination benefits paid to any director at any time during the year ended 31 December 2021 and 2020.

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2021 and 2020, the Group provided no consideration to third parties for making available director's services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(d) Information about loans, quasi-loans and other dealings

There were no loans, quasi-loans and other dealings in favour of:

(i) directors of the Company;

(ii) bodies corporate controlled by such directors; and

(iii) entities connected with such directors as at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

40 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) The Board of Directors announced that on 18 January 2022 ("Date of Grant"), 44,747,000 share options (the "Share Options") to subscribe for a total of 44,747,000 ordinary shares of HK$0.10 each in the share capital of the Company were granted to certain directors and employees of the Group (the "Grantees"), subject to the acceptance of the Grantees, under the share option scheme adopted by the Company on 17 May 2021. The estimated cost of share options granted is HK$147,446,000 in total. The total cost of share options granted of HK$147,446,000 equivalent to RMB122,277,000 using the average exchange rate of HK$ to RMB in 2021,which is 0.8293.